Annual Report 2018

DKB

Deutsche Kreditbank AG

Performance indicators

EUR millions	2018	2017
Net interest income	976.7	935.2
Risk result[1]	111.8	127.3
Net commission income	–33.7	–39.2
Administrative expenses	474.7	446.3
Profit/loss before taxes	301.2	264.7
Cost/income ratio (CIR) in %	51.5	50.8
Return on equity (RoE) in %	10.2	9.6

Balance sheet figures

EUR millions	2018	2017
Total assets	77,387.6	77,322.9
Equity	3,340.4	3,255.5
CET1 ratio in %	9.1	8.6
Client receivables	65,932.5	64,552.2
Client deposits	54,366.1	53,931.0

Customer figures

	2018	2017
Number of clients	4,073,875	3,761,498
Number of retail current accounts (DKB Cash)	2,980,293	2,746,526

Employee figures

	2018	2017
FTE | headcount as at 31 Dec.	3,431 | 3,731	3,084 | 3,379
Average age in years	42.9	43.1
Average length of service in years	8.4	8.5
Gender breakdown m | f in %	43.8 | 56.2	43.3 | 56.7
Gender breakdown by management position m | f in %	62.4 | 37.6	60.5 | 39.5
Workforce availability in %	95.1	95.1
Training days/employee	3.8	3.4

[1] Risk provision until 2017

Company profile

Deutsche Kreditbank AG (DKB), with approximately 3,700 employees and total assets of EUR 77.4 billion, is one of Germany's top 20 banks. Our products are leaders in the market and are distinguished by fair terms. We serve more than 4 million clients. They are able to conduct their banking transactions comfortably and securely online using the latest technology. Our industry experts assist our business clients in person at their offices.

Entrepreneurial and sustainable actions are of great importance to us: this is why we use around 85% of our net assets for loans, such as for the construction of apartments suitable for the elderly and families, energy-efficient real estate, outpatient and inpatient health facilities, and for construction projects in schools and day-care centres in Germany. We ensure that the local agricultural sector remains competitive by investing in factors of production and bioenergy. We have also financed a number of renewable energy projects in wind, sun and water since 1996.

We foster a culture of appreciation and togetherness – both among ourselves as well as with our clients and business partners. A variety of tasks and development opportunities for our employees and optimal framework conditions for daily working life make us a responsible and attractive employer. The DKB MANAGEMENT SCHOOL is our in-house further education and training academy for strengthening our employees' and clients' competencies. Our social commitment through our foundation, the DKB STIFTUNG, is proactive and comprehensive.

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Letter from the Board of Management

Dear Sir or Madam,

We can look back on a very successful financial year which fills us with pride. Given the many strategic, regulatory and operational challenges we face as a bank, this is not something we take for granted. The consistent focus on our business model, our digitalisation strategy and, last but not least, our innovative strength are paying off.

In 2018, we improved earnings before taxes once again by EUR 36.5 million to EUR 301.2 million compared with the very good figure for the previous year. Net interest income increased by 4.4% to EUR 976.7 million. But our costs have also increased. Consistent investments in digitalisation for a future as a tech-bank, in measures to expand security systems and in rising expenses for bank levies, deposit insurance and banking supervision resulted in higher administrative expenses than in the previous year.

We live in eventful times. The challenges are increasing. Our aspiration is long-term economic success. Our aim is to inspire our clients, our employees and society with sustainability and fairness. We have positioned and further developed ourselves accordingly.

We continued to focus on our goal of developing DKB into a tech-bank in 2018. To further our digital initiative, we founded the DKB Code Factory in the middle of the year. This in-house start-up with extensive digital expertise develops new innovative products and services for our clients and supports the modernisation of our IT infrastructure internally.

For us, digitalisation is more than just keeping up with the times. It is at the heart of our existence. Digitalisation affects all areas of our bank – internally and externally, as well as every individual in the company. We create modern worlds of work. We shape the future together at DKB by focusing on technological innovations for ourselves and our clients in order to ensure client-facing banking in the future as well.

We experienced strong growth again in 2018. We surpassed the 4 million mark in our number of retail clients. And more are being added daily. This shows that our portfolio meets the needs of the market. We are working hard on this. In the past financial year, we again optimised products, functions and services, for example by digitising the credit process for instalment loans and construction financing.

In the business client segment, the expansion of our local presence last year proved to be an excellent strategy. Our industry expertise, our unique network and the creation of additional client value, such as with the new digital inter-company comparison for farmers, coupled with personal support for our business clients, are key factors contributing to our growth.

We also performed well in the area of issues; with the successful placement of our social public bond in September 2018, we are the first commercial bank to introduce both green and social bonds onto the market in Germany.

In view of the enormous dynamism of the market, we will ramp up our pace of development even more in the current year. The underlying conditions remain challenging: the European Central Bank is maintaining its low interest rate. Competition will continue at a high level in all our business segments and spur us on. We have a lot planned for 2019 – including the consistent digitalisation of the lending process and the enhancement of automated decision-making processes in order to become even faster.

In addition, we will focus on digital product innovation for all our clients.

We would like to thank our clients and business partners for their trust. In times of dynamic change, we support them with innovative and digital offerings which are also sustainable in the long term. We will continue to drive forward the digitalisation process and the sustainable focus of our solutions and products in order to live up to our own expectations of a modern tech-bank.

Our employees are the basis for our success. Together with you, your ideas and your commitment, we want to continue to make DKB the number one for our clients, partners and employees. Throughout Germany. This is our goal. We are well on our path and highly motivated. The spirit is right. Thank you for being on board.

The Board of Management
March 2019

Stefan Unterlandstättner

Tilo Hacke

Thomas Jebsen

Alexander von Dobschütz

Jan Walther

Executive bodies

Board of Management

Stefan Unterlandstättner
Chair of the Board of Management

- Strategy and investments
- Business with savings banks
- Human resources and legal
- Sustainability
- Treasury
- Corporate communication, marketing
- Digital transformation
- Internal audit

Rolf Mähliß (until 31 March 2018)
Member of the Board of Management

- Finance
- Compliance
- Processes
- Mid Office
- IT
- Data protection and security

Tilo Hacke
Member of the Board of Management

- Retail clients
- Business clients
  – Food and agriculture
  – Renewable energy
  – Tourism
- Central and South-East sales region

Thomas Jebsen
Member of the Board of Management

- Business clients
  – Housing industry
  – Local authorities and social infrastructure
  – Energy and utilities
- Individual clients
- Sales regions North, South, Berlin-Brandenburg, South-West, Magdeburg-Hanover and West

Alexander von Dobschütz (from 1 January 2018)
Member of the Board of Management

- Risk controlling
- Compliance
- Back office
- Workout

Jan Walther (from 1 April 2018)
Member of the Board of Management

- Finance
- Organisation
- Operations and Banking Services
- IT
- Data Protection and Occupational Safety
- Non-Financial Risk

Supervisory Board

Shareholders' representatives:

Dr Edgar Zoller
From 25 January 2019
Chair of the Supervisory Board
Deputy Chair of the Board of Management of Bayerische Landesbank (CEO)

Michael Bücker
From 25 January 2019
Member of the Supervisory Board
Member of the Board of Management of Bayerische Landesbank

Bernd Fröhlich
Chair of the Board of Management of Sparkasse Mainfranken Würzburg

Stefan Höck
Deputy Head of the Department of State Investments and Real Estate Management, Bavarian State Ministry of Finance, Regional Development and Regional Identity

Michael Huber
Chair of the Board of Management of Sparkasse Karlsruhe

Marcus Kramer
Member of the Board of Management of Bayerische Landesbank

Walter Pache
Independent financial expert

Dr Markus Wiegelmann
Member of the Board of Management of Bayerische Landesbank
Independent financial expert

Dr Johannes-Jörg Riegler
Until 31 December 2018
Chair of the Supervisory Board
Former Chair of the Board of Management of Bayerische Landesbank

Honorary member:

Günther Troppmann
Former Chair of the Board of Management of Deutsche Kreditbank AG

Employee representatives:

Bianca Häsen
Deputy Chair of the Supervisory Board
Employee of Deutsche Kreditbank AG

Michaela Bergholz
DBV representative
(Deutscher Bankangestellten Verband; German association of bank employees)

Carsten Birkholz
From 14 March 2018
Member of the Supervisory Board
Employee of Deutsche Kreditbank AG

Christine Enz
DBV representative

Jörg Feyerabend
Employee of DKB Service GmbH

Jens Hübler
Senior employee of Deutsche Kreditbank AG

Maria Miranow
From 14 March 2018
Member of the Supervisory Board
Employee of Deutsche Kreditbank AG

Frank Radtke
Employee of Deutsche Kreditbank AG

Frank Siegfried
Until 14 March 2018
Member of the Supervisory Board, employee of Deutsche Kreditbank AG

Gunter Wolf
Until 14 March 2018
Member of the Supervisory Board
Employee of Deutsche Kreditbank AG

Authorised representatives

Bettina Stark

Jan Walther
Until 31 March 2018

Arnulf Keese
From 1 July 2018

Directors

Thomas Abrokat
Mario Bauschke
Christof Becker
Harald Bergmann
Sabine Breitschwerdt
Mark Buhl
Matthias Burger
Dominik Butz
Gerhard Falkenstein
Peter Forch
Mark Hauel
Armin Hermann
Frank Heß
Henrik Hundertmark
Jens Hübler
Alexander Kapst
Axel Kasterich
Andreas Kaunath
Christoph Klein
Herbert Klein
Jana Kröselberg
Dörte Lange
Lars Lindemann
Wolfgang Lohfink
Jörg Naumann
Frauke Plaß
Claudia Polaschewski
Thomas Pönisch
Roland Pozniak
Wolfgang Reinert
Johann Scheiblhuber
Burkhard Stibbe
Dr Wulf-Dietmar Storm
Ralf Stracke
Thomas Teuber
Karsten Traum
Holm Vorpagel
Ekkehard Weiß
Jürgen Wenzler
Andreas Wilmbusse
Dr Thomas Wolff

Trustees

Dr Bernhard Krewerth

Josef Baiz
Until 31 January 2018

Dr Christian Marburger
From 1 February 2018

Report of the Supervisory Board

Dear Sir or Madam,

On behalf of the Supervisory Board, I hereby report on the following monitoring and consultation issues handled by our Board in financial year 2018.

Our Board once again guided the Board of Management of DKB throughout an overall highly successful financial year. In view of the ongoing upheaval in our industry, 2018 remained a challenging year for our bank. The continuing major changes in the competitive environment and the increasing administrative requirements as a result of increased regulation, as well as the ongoing digitalisation, had a major impact on the topics and day-to-day business of the bank. The difficult interest rate environment for the banking sector also had, and continues to have, an impact. This makes the recent business development of DKB all the more positive.

In accordance with the tasks conferred on it by law and the Articles of Association, the Supervisory Board monitored the management of the Board of Management in financial year 2018 on a continuous basis and worked closely with it in the management of the company. Our Board believes that the Board of Management's activities were lawful, appropriate and correct at all times. The Board of Management met its public information obligations at all times and informed us of events and measures relevant to the company on a regular basis, promptly and comprehensively, in writing and orally.

Priorities of the Supervisory Board

During financial year 2018, the Supervisory Board held four meetings at regular intervals and one constitutive meeting. The working topics of all regular meetings consisted of strategy and planning, business development, major projects and the monitoring of the risk situation. In addition, the Supervisory Board discussed the market development on a regular basis in its consultations.

The meeting on 14 March 2018 focused on the 2017 annual and consolidated financial statements of DKB. The Supervisory Board approved these after thorough review and consultation, as well as taking the auditor's audit reports into account. In addition, the Board dealt with the DKB risk strategy, the multi-year planning and the status of the reduction of non-core business. Other topics included the annual reports on securities and MaRisk compliance, the prevention of money laundering, terrorist financing and white-collar crime, information security and the annual report of the auditors.

A further meeting on 14 March 2018 focused on the constitution of the Supervisory Board with the election of a new Chair and Deputy Chair, as well as the composition of the committees.

At its meeting on 21 June 2018, the Supervisory Board intensified its focus on regulatory issues such as the directives of the European Banking Authority, among others on internal governance and the EBA Guideline (Assessment/Suitability of the Management Body and Key Function Holders). In addition, the Board dealt in detail with cooperation issues, the establishment of the DKB Code Factory and the digitalisation of the lending business.

At the meeting on 20 September 2018, the Supervisory Board discussed the topics of IT architecture and IT strategy in particular. Other items on the agenda included a portfolio report focusing on the residential sector and external audits.

At the meeting on 5 December 2018, the Supervisory Board dealt with the multi-year planning as well as risk capital and capital planning. It was briefed on the status of ongoing projects, including with respect to the GDPR, and on the further digitalisation of the bank. In connection with this, the Board discussed the strategic development of private, corporate and individual client business in detail.

The Chair of the Supervisory Board was also in regular, intensive contact with DKB's Board of Management between meetings. The Supervisory Board was notified of important events in writing between meetings. Resolutions were also passed between meetings by the controlling body as necessary.

Committee work

In order to effectively carry out its tasks, the Supervisory Board formed five committees: a Risk Committee, an Audit Committee, a Nomination Committee, a Compensation Committee and a Conciliation Committee. The four-member Conciliation Committee did not meet in the past year. The four other committees were involved in the work of the Supervisory Board through regular meetings. They prepared topics that were discussed or resolved by the Supervisory Board and passed their own resolutions within the scope of their decision-making powers.

The five-member Risk Committee held five meetings in 2018. Among other matters, it dealt with issues relating to the risk situation, risk provisions, risk strategy and current regulatory issues. Further topics were DKB loans subject to submission requirements under the law or the Articles of Association.

The Audit Committee comprises five members and also met five times in the past financial year. It supported the work of the Supervisory Board in monitoring the accounting process, the annual audit and the effectiveness of the risk management system, in particular the internal control system and internal audit. Furthermore, it dealt with compliance issues and the commissioning of the auditor with authorised non-audit services.

The Nomination Committee, which consists of four members, held five meetings. The committee dealt with the introduction and implementation of the EBA Guideline (Assessment/Suitability of the Management Body and Key Function Holders) as well as with the efficiency review of management and Supervisory Board activities pursuant to Section 25 (11) nos. 3 and 4 KWG [German Banking Act]. In addition, the Nomination Committee developed a succession process for the Board of Management and the Supervisory Board.

The four-member Compensation Committee held five meetings. In these meetings, it monitored the appropriateness of the remuneration systems and assisted in the preparation of relevant documentation.

Last year, the Board of Management consisted of five members and the Supervisory Board of 16. Frank Siegfried and Gunter Wolf resigned from the Supervisory Board as of 14 March 2018. Carsten Birkholz and Maria Miranow were newly appointed to the Supervisory Board with effect from 14 March 2018. Moreover, Alexander von Dobschütz assumed his duties on the DKB Board of Management on 1 January 2018 and Jan Walther on 1 April 2018.

Dr Johannes-Jörg Riegler resigned from the Supervisory Board of DKB as of 31 December 2018. The Supervisory Board thanks him for his trust and cooperation.

Annual audit

The consolidated financial statements and the combined management report, as well as the accounting records these documents are based on for 2018, were audited by the auditors appointed by the shareholders' meeting, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, and provided with an unqualified audit opinion.

After a detailed discussion and review of the consolidated financial statements, the Supervisory Board endorsed the results of the annual audit. No objections to the result of the audit of the consolidated financial statements and the combined management report as at 31 December 2018 were raised. At its meeting today, the Supervisory Board approved the consolidated financial statements presented to it by the Board of Management.

The Supervisory Board thanks the Board of Management as well as all the employees for their dedication and outstanding contribution to DKB's excellent results in the past financial year.

Berlin, 14 March 2019
On behalf of the Supervisory Board

Zoller

Dr Edgar Zoller
Chair

Combined management report of the DKB Group and DKB AG

Please note: unless DKB AG or the DKB Group are mentioned explicitly in this report, the mention of DKB means that both the DKB Group as well as DKB AG are affected.

Basic principles of the Group

Structure and business model

A major bank in Germany

Deutsche Kreditbank AG (DKB), with approximately 3,731 employees and total assets of EUR 77.4 billion, is one of Germany's major banks. It is headquartered in Berlin, and a wholly owned subsidiary of BayernLB.

From a geographical perspective, our business activities focus on the Federal Republic of Germany. Here we are present at 25 locations and serve the market via eight sales regions.

Besides the parent company, DKB AG, the DKB Group comprises, in particular, DKB Service GmbH, DKB Grund GmbH, DKB Finance GmbH, MVC Unternehmensbeteiligungs GmbH and FMP Forderungsmanagement Potsdam GmbH.

The management report of Deutsche Kreditbank AG and the consolidated management report for the 2018 financial year are combined. Unless DKB AG or the DKB Group are mentioned explicitly below, the mention of DKB means that both the DKB Group as well as DKB AG are affected.

As of the end of 2018, the DKB Group employed 3,431 staff members on a capacity basis (previous year: 3,084 employees).

As at the balance sheet date, the DKB Group posted client receivables in the amount of EUR 65.9 billion (previous year: EUR 64.6 billion) as well as client deposits in the amount of EUR 54.4 billion (previous year: EUR 53.9 billion). The net interest income realised in the financial year amounted to EUR 976.7 million (previous year: EUR 935.2 million). Pre-tax profit amounted to EUR 301.2 million (previous year: EUR 264.7 million). The result before additions pursuant to Section 340g HGB [German Commercial Code] of DKB AG amounted to EUR 295.1 million (previous year: EUR 252.0 million).

DKB passes approximately 85% of its net assets on to companies, local authorities and retail clients in Germany in the form of loans. Our company is neither an investment bank nor do we provide asset management services.

Two-pillar model

DKB's business is based on two pillars: online banking and corporate clients. As an online bank, we help more than 4 million retail clients across Germany over the Internet, offering them simple and intuitive products at competitive terms. As a bank for commercial and corporate clients, we focus on companies and local authorities via branches with financing and investment solutions. In doing so, we concentrate on selected industries in Germany: among others, we finance the construction and operation of wind farms, hydro power plants, bioenergy and photovoltaic plants, the renovation and construction of residential buildings, schools, childcare facilities and health centres, and finance projects in the German agricultural sector.

We provide our industry expertise in the BayernLB Group as well as in the Association of Savings Banks. DKB contributes to regional economic and power supply stability by means of this business activity.

Focus on sustainability

Our goal is to build long-term and valuable business relationships and we are guided by the principles of sustainable action in doing so. This means that we ensure compliance with environmental and social standards when granting loans.

In addition, we endeavour to conserve resources in-house and take our responsibility as an employer seriously. We also meet our obligations to society through the independent DKB foundation for corporate responsibility (the DKB STIFTUNG).

We rely on the technology available to modern banking processes, innovation and targeted cooperation partnerships that offer our clients added value. When supporting our business clients, we draw on our many years of regional and industry knowledge and utilise a network of specialists.

Market cultivation via three segments

We split our company activities into three market segments – retail, infrastructure and corporates – and financial markets, which includes the treasury division of DKB, and "other" segments:

In the retail clients segment, we support Internet-savvy private clients as well as healthcare and liberal professions with the financial services provided by a modern online bank. Here we focus on transparent services at competitive terms. The product range essentially comprises the DKB Cash and DKB Business account packages, construction finance and retail loans, medical practice and law firm finance, real estate finance, investment products, and the partner (co-branding) credit card business. In addition to DKB AG's retail clients and private clients business, the companies FMP Forderungsmanagement Potsdam GmbH and DKB Grund GmbH are also assigned to the retail client segment.

In the infrastructure segment, we offer customised financing and investment products to clients in the fields of local authorities, social infrastructure, housing, administrators, energy and utilities. Products include local bank and development loans, term loans and overdraft facilities, sureties, deposit banking and the offer of business accounts including payment transaction services. We provide a high level of expertise in integrating development aid and civic participation when creating appropriate client solutions.

In the corporate clients segment, we focus on clients from the areas of environmental technology, food and agriculture, and tourism. The products and services on offer correspond largely to those in the infrastructure segment. The activities of DKB Finance GmbH and MVC Unternehmensbeteiligungsgesellschaft mbH are also assigned to this segment.

The three segments of Retail, Infrastructure and Corporates are in line with our strategic core business. In the retail clients segment, we want to be a trustworthy partner for all financial matters as our clients' primary bank. To achieve this, we offer our clients market-leading products and solutions, and develop innovations that are accessible and easy to understand. We support our business clients with distinct industry know-how and professional expertise, thereby further developing our market position in the above-mentioned target industries.

The financial markets segment includes DKB's treasury activities. It is also responsible for interest book management and regulatory liquidity security. Via the Treasury, we operate in the capital market as an issuer of debt instruments. Two significant instruments are covered bonds in the form of Pfandbriefs and uncovered bonds in the form of green bonds and social bonds. In addition, the regulatory securities portfolio held for liquidity purposes and the intra-Group funding to BayernLB are assigned to this segment.

The "other" segment contains cross-divisional transactions and contributions to earnings which cannot be allocated to the segments according to source. These include the central administrative expenses of DKB AG, the earnings contribution of DKB Service GmbH and the non-core business.

Management and supervision

Close collaboration between executive bodies

The DKB AG Board of Management comprised five members in the past financial year: the Chair Stefan Unterlandstättner and the other members Tilo Hacke, Thomas Jebsen, Alexander von Dobschütz and Jan Walther. Alexander von Dobschütz has been a member of the Board of Management of DKB AG since 1 January 2018. He was appointed to the Board of Management as direct successor to Dr Patrick Wilden, who resigned from the Board of Management as of 31 December 2017. On 1 April 2018, Jan Walther took over the duties of Rolf Mähliß, who retired after 17 years on the Board of Management.

The Board of Management runs the company independently and is responsible for its operational affairs. It develops the strategic alignment, coordinates this with the Supervisory Board and ensures its implementation. In order for the Board to effectively perform its tasks, areas of responsibility are assigned to the Board members, who then take charge of the associated operations. Important strategic decisions as well as lending decisions are taken by the Board of Management as a whole.

The Board of Management of DKB AG is appointed by the Supervisory Board. The Supervisory Board advises the Board of Management in matters relating to the running of the company and supervises its business management. The topics that were the focus of the Supervisory Board's work in financial year 2018 are set out in the Supervisory Board's report. At the end of 2018, the Supervisory Board comprised 16 members with equal numbers of shareholder and employee representatives.

In the meetings and outside of meetings, the Board of Management and the Supervisory Board work closely together. The Board of Management reports regularly, promptly and comprehensively to the Supervisory Board with regard to all issues concerning corporate planning, strategic development, the earnings and financial situation, and the risk situation of the company.

There were no conflicts of interest in connection with the performance of duties or functions in other companies or organisations for any of the members of the two bodies in the past financial year.

Corporate governance principles as a core value

The Board of Management and the Supervisory Board of DKB AG are committed to responsible corporate management and supervision that is focused on long-term value creation. The principles of corporate governance form the basis of and are the guiding principle for the conduct of all members of the company.

In performing their duties, the Board of Management and Supervisory Board are guided by DKB's corporate governance principles. These are derived from the provisions of the German Corporate Governance Code and are regularly reviewed for their effectiveness and regulatory compliance. As soon as the legal requirements or the shareholders' regulations change, or new experience suggests a revision, the principles are adapted. The corporate governance principles apply to both DKB AG as well as all the other companies of DKB.

In the opinion of the Board of Management, good corporate governance particularly strengthens the trust that clients, business partners, investors, employees and the public have in DKB AG. It increases corporate transparency and supports the credibility of our company.

From the perspective of the company's management, good corporate governance also means a strict understanding of compliance. For DKB, lawful conduct is a basic prerequisite for lasting and stable business relationships and for long-term, successful corporate development. The Board of Management sees the topic of compliance monitoring as a key management task and expressly commits itself to lawful, socially minded and ethical conduct.

DKB's demanding understanding of management and conduct is also reflected in its conduct standards and guidelines. These include the criteria employed for strategic corporate decision-making, which are oriented towards long-term success, and the Code of Conduct, by which all employees of DKB are guided.

At the reporting level, DKB AG complies with corporate governance requirements, such as via the annual publication of a remuneration report in accordance with the company's remuneration policy that can be viewed on the company's website.

Corporate management

Strategically embedded control system

The organisation of the management and control processes in our company is based on differentiated strategic planning. This is accompanied by a regular assessment of opportunities and risks. Our comprehensive risk management secures the stability of our Group.

Our planning is carried out with different time horizons: the starting point is the multi-year planning, from which we derive our short- and medium-term goals. These objectives are incorporated into the operational planning of the organisational units and are linked with corresponding measures at the operational level.

Financial key performance indicators measure earnings and performance

Our commercial management focuses on achieving a net assets and financial position that is stable in the long term, and focused on positive earnings performance. To this end, we use key financial figures relating to earnings, profitability and value.

Specifically, DKB is managed using the following IFRS-based financial performance indicators:

– Cost/income ratio (CIR): This KPI measures the relationship between costs and income, and provides information on our economic efficiency. The CIR represents the ratio of administrative expenses to the total of the income items of net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on financial investments, other comprehensive income and the result from the disposal of AAC category financial instruments (as part of the risk result).

– Return on equity (RoE): This KPI measures the relationship between earnings and equity, and provides information on the return on equity employed. The RoE is calculated as a quotient between the profit before taxes and the assigned regulatory hard core capital.

– Net interest income: Given the significance of the traditional lending and deposit business for DKB, the net interest income (difference between interest income and interest expenses) is a key control parameter and an important performance indicator.

– Profit before taxes: The profit before taxes figure is taken from the income statement and does not take the tax item into account.

– Total assets: The performance of total assets provides information on the achievement of our volume targets.

– Risk result/risk provision: The change in risk provisions or the risk result provides information on the achievement of our risk targets.

Based on the German Commercial Code (HGB), we consider net profit before profit transfer as a control parameter.

To assess the achievement of our growth targets, the following performance indicators are also considered at the segment level:

– volume of receivables (nominal),

– deposit volume and

– number of clients in the retail clients segment.

Non-financial data indicates the development of qualitative business factors

Parallel to the financial performance indicators, we regularly collect information and data that provide insights into the development of non-financial success factors. They relate to employee-, client-, market- and product-related aspects. We use the results and findings of the surveys to further improve our operating performance.

The “Non-financial performance indicators” section explains the measures we take as we generally seek to achieve the various non-financial objectives. Our non-financial objectives relate to aspects in the following areas:

– Employees: composition, satisfaction, level of education, health

– Clients: client satisfaction, client growth, market share

– Performance: product and service quality

We pursue all our financial and non-financial corporate goals with a fundamental focus on sustainable corporate development.

Report on the economic position

Economic environment

Development of the macroeconomic environment

Economy loses momentum

Economic sentiment deteriorated over the course of the year in 2018. Two main reasons for this were the increasing conflicts in trade policy and the tightening of monetary policy in the USA. The latter led to a turnaround in international capital flows, which slowed expansion in emerging markets in particular. Despite this, the global growth rate still reached 3.7% (2017: 3.7%).

The economy developed in a more differentiated manner in 2018 than in the previous year when the countries were in sync: while the pace of expansion in the USA picked up again, driven by fiscal policy, the economy in the eurozone and Japan lost momentum. In the United Kingdom, production fell even further compared with the already moderate level of the previous year.

Growth in Germany reaches its limits

The German economy continued to expand in 2018, with growth faltering over the course of the year. In the third quarter, economic output declined for the first time in three years. This was due to production disruptions in the vehicle construction segment, which is particularly important for Germany, as well as transport difficulties on inland waterways.

In view of the high capacity utilisation, it is increasingly difficult for companies to expand their production further at a high pace. Over the year as a whole, gross domestic product rose by 1.5% on a calendar-adjusted basis, 0.7 percentage points less than in the previous year.

Measured in terms of the consumer price index, the inflation rate for Germany was 1.7% in December 2018. Thus, the consumer price trend remained clearly upward, so that the value is now close to the European Central Bank's (ECB) inflation target of 2% for the eurozone.

Development of the industry environment

Despite a slight downturn, financial markets remained stable

The somewhat weaker economic momentum was reflected in developments on the financial markets from mid-2018 onwards. They have recently been more strongly influenced by political factors: these included the Italian government's disregard of fiscal rules in Europe, the difficult situation in Turkey and growing trade tensions with the USA. However, the global financial system remained robust in 2018.

The US Federal Reserve continued its interest rate policy, which it started at the end of 2015, and last year raised its key interest rates in four stages. At the end of the year, the key interest rate range was between 2.25% and 2.50%. During this period, the European Central Bank (ECB) maintained its low interest rate policy. Key interest rates remained unchanged at 0% and the deposit facility continued at –0.4% throughout the year.

Until autumn, capital market issuers benefited from the continued very favourable financing conditions as a result of the Eurosystem's extended purchase programme. With the gradual reduction of the purchase volume, however, a negative spread movement set in from the issuer's point of view, which continued throughout the end of the year. The increase in credit spreads led to a deterioration in refinancing conditions on the capital market – including for banks. The negative interest rate on the deposit facility further contributed to a decline in net interest income for banks in the second half of 2018.

Stock markets weakened

Economic uncertainties were reflected in the high volatility on international stock markets. Over the course of the year, the main indices fell sharply in some cases. The Dow Jones dropped by 5.6% over the course of the year, while the DAX decreased significantly by 18.3%. The MSCI World Index, which includes the most important stock exchanges, fell by 10.4% over the year.

The euro exchange rate fell from USD 1.20 to USD 1.14 over the course of the year. The currency was particularly burdened by key interest rate hikes in the USA, the economic slowdown in the eurozone and Italian fiscal policy. The yield on ten-year German government bonds fluctuated sharply in 2018 between 0.76% in February and 0.11% at the end of the year.

Competitive pressure on banks continues

The profitability of banks was not only severely impacted by the low interest rate environment, but also by growing IT and regulatory costs and the expansion of measures against cybercrime. At the same time, banks must prepare themselves for increasing competition, which will be further intensified by the market entry of new competitors. Experts therefore now see the market as being under strong consolidation pressure, which companies can only counter through innovation, cooperation and consistent cost reductions.

In the interests of greater clarity, more detailed information on the market position and competitive situation in DKB's various target markets is provided further below in the statements on the course of business in the three market segments (retail clients, infrastructure and corporate clients).

Business performance

Overall performance of DKB

Business developed well in 2018

In 2018, DKB continued its development of the previous years and closed another financial year with excellent results. The targets set at the beginning of the year were, on the whole, achieved and exceeded.

DKB succeeded in expanding its market position through its client-focused product and service portfolio and further improving its earnings situation. Net interest income and net commission income of the DKB Group rose accordingly by EUR 41.5 million (+4%) and by EUR 5.6 million (+14%) respectively in 2018.

Thanks to the continued positive economic environment, the DKB Group was able to achieve a risk result of EUR –111.8 million, which was EUR 15.5 million (–12%) below the risk provision of the previous year.

On the operational side, we continued to work successfully on the further development of our services for clients in 2018. In addition, we improved our offerings and increased their ease of use. In addition to cost management, innovation and networking, digitalisation remained a central core topic last year: with the aim of further developing DKB into a tech-bank, extensive investments in the digital infrastructure were, and continue to be, necessary. This was accompanied by the intensification, initiation and implementation of a wide range of measures relating to information security, data protection and fraud prevention. This was associated with an increase in administrative expenses of EUR 28.4 million (+6%).

The position of Chief Digital Officer was filled as of 1 July 2018. In order to further advance the digitalisation of DKB, we founded DKB Code Factory GmbH to launch our digital initiative. With this wholly owned subsidiary, we are relying on our own start-up with a high degree of flexibility, distinctive digital expertise and the ambition to develop new, innovative products and services for our clients. This new DKB Developer Centre also contributes to the modernisation of our IT infrastructure.

The forecast/actual comparison is as follows for DKB's performance indicators:

DKB Group	Forecast 2018	Actual 2018
Net interest income	At the level of 2017 (Previous year: EUR 935.2 million)	**Forecast exceeded** Net interest income rose by 4% to EUR 976.7 million compared with the previous year.
Risk provisions	At the level of 2017 (Previous year: EUR 127.3 million)	**Forecast exceeded** Risk provisions were 18% lower than the previous year's figures at EUR 104.8 million. The decline resulted from the further improvement in the portfolio structure and the continued positive economic development.
Profit/loss before taxes	Slightly below 2017 (Previous year: EUR 264.7 million)	**Forecast exceeded** Due to the positive development of net interest income, earnings before taxes increased by EUR 36.5 million to EUR 301.2 million.
Total assets	At the level of 2017 (Previous year: EUR 77.3 billion)	**Forecast achieved** Net assets rose to EUR 77.4 billion.
RoE	Slightly below 2017 (Previous year: 9.6%)	**Forecast exceeded** Return on equity increased to 10.2%, in particular due to the positive earnings situation.
CIR	At the level of 2017 (Previous year: 50.8%)	**Forecast achieved** At 51.5%, the cost/income ratio remained at the previous year's level.

DKB AG	Forecast 2018	Actual 2018
Net profit for the year before allocation to the fund for general banking risks and before profit transfer	Slightly below 2017 (Previous year: EUR 252.0 million)	**Forecast exceeded** Due to the positive development of net interest income and risk provisions, net income before allocation to the fund for general banking risks and before profit transfer increased by EUR 43.1 million to EUR 295.1 million.

In 2018, DKB further strengthened its regulatory capital by allocating EUR 200.0 million to the fund for general banking risks and by raising subordinated capital of EUR 100.0 million.

The DKB Group has applied the provisions of IFRS 9 since 1 January 2018. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" and contains new provisions for the classification and measurement of financial instruments as well as new regulations for the recognition of impairments of financial assets and for the accounting of hedging relationships (hedge accounting).

The first-time application of IFRS 9 resulted in an effect of EUR –98.5 million, which was recognised directly in equity in accordance with the provisions of IFRS 9. The effect is primarily a result of the new regulations for taking into account expected credit losses over the term. For further information on the first-time application of IFRS 9, please refer to the Notes (Note 2).

Overall performance of the segments

Forecast/actual comparison of key performance indicators

Segments	Forecast 2018	Actual 2018
Retail clients		**Forecast partially exceeded**
New clients:	more than 250,000	+ 388,000
Receivables volume:	At the level of 2017 (Previous year: EUR 13.0 billion)	EUR –0.6 billion
Infrastructure Receivables volume:	slightly above 2017 (Previous year: EUR 38.0 billion)	**Forecast exceeded** EUR +2.2 billion
Corporate clients Receivables volume:	slightly above 2017 (Previous year: EUR 13.3 billion)	**Slightly below the forecast** EUR –0.1 billion
Deposit volumes in the client segments	At the level of 2017 (Previous year: EUR 49.6 billion)	**Forecast achieved** EUR +0.9 billion

Retail clients segment

Market environment still strongly characterised by change

The ongoing low interest rate policy, unchanged high regulatory pressure and rising client requirements continued to shape the framework conditions for retail banking in 2018 and led to a continuously changing environment with new laws and economic rules: the traditional boundaries between banking and other industries have continued to disintegrate, and banks are increasingly facing intense competition from new and, above all, cross-border, global providers.

Technological development proved to be a key driver of change: progressive digitalisation processes and the constant growth of new technologies are forcing banks to adapt their products and processes in order to survive in this market environment.

At the same time, the rise in client demands continued: clients transfer their positive experiences from other industries to the financial sector – coupled with very high expectations, especially with regard to convenience and usability. They are increasingly choosing their bank according to the scope of services offered in these two categories. Attractive individual criteria such as the interest rates on offer are no longer sufficient to attract or retain clients.

Strategic course maintained

In this challenging environment, we continued on our targeted path in the business with retail clients. We strengthened our positioning as a partner to our clients in their everyday lives and exploited the potential in important earnings areas in the payment sector. We expanded our product and service portfolio in line with the market situation in order to meet the need for convenience and usability and strengthen our market position. In addition, we concentrated on the continuation of our profitable co-branding cooperation and the acquisition of new, strategically meaningful partners.

Our central anchor product, DKB Cash, a free current account including a free credit card, proved to be a success driver for the retail client business. In order to further increase our profitability, we strengthened our commission business and intensified existing client relationships, while at the same time improving the cost situation.

In the lending business, we concentrated on market-oriented business expansion in consumer lending and the continuation of the two-brand strategy DKB and SKG BANK. In addition to the traditional instalment credit, which is not linked to creditworthiness, we offer our retail clients additional loan variants via SKG BANK. In real estate financing, we succeeded in significantly increasing the volume of new business. This growth was supported in particular by the digitalisation of the entire construction financing process, which enables the convenient conclusion of product contracts directly in Internet banking.

In financial year 2018, we continued to improve the digital user experience for our retail clients with new services in line with our Digital Roadmap. This included various performance and security enhancements in Internet banking and in our apps. For example, the multibanking function gives our clients a better financial overview of all their bank accounts. They can identify themselves using Touch and Face ID on their mobile device and set push notifications for credit card transactions. Existing partnerships with fintechs and financial service providers such as PayPal, Gini, FinReach and Clark were successfully continued and further developed in 2018.

Client base increased further

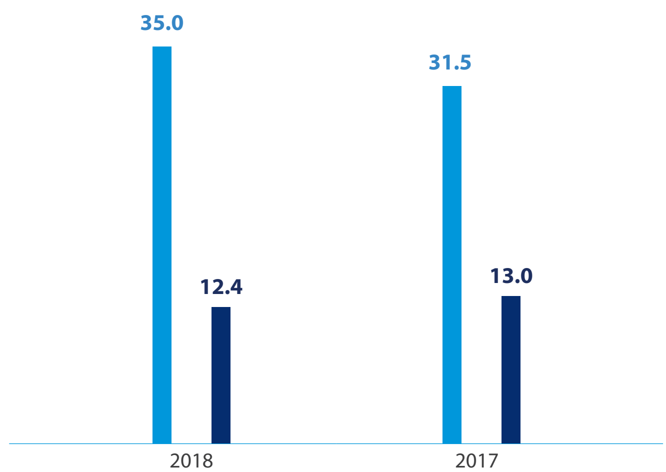
In 2018, we succeeded in expanding the number of clients in the retail clients segment to more than 4.0 million (previous year: 3.7 million). This figure makes DKB the second largest online bank in Germany. The free DKB Cash service continued to pave the way for client relationships. In a banking environment in which account management fees have once again become standard, this offer is highly attractive. The number of DKB Cash accounts rose to approx. 3.0 million (previous year: 2.7 million). Measured by the number of current accounts, DKB remains the market leader among German online banks.

The lending business was shaped by an intense market environment. Clients with current agreements are increasingly taking advantage of the low interest rate level for repayments. Despite a significant increase in new business, the volume of receivables (nominal) fell slightly compared with the previous year (EUR 13.0 billion) to EUR 12.4 billion.

The high number of new clients in 2018 had an impact on the deposit volume of the segment, which increased to EUR 35.0 billion (previous year: EUR 31.5 billion).

Retail clients deposit and receivables volume

EUR billions



- Retail clients deposit volume
- Retail clients receivables volume (nominal)

DKB Cash: anchor product opens doors

In the retail client business, DKB Cash remains the anchor product that convinces our clients and brings new clients to us. The differentiation between “lending clients” and “non-lending clients” with a corresponding range of products and services, introduced in the previous year in line with market conditions, is accepted. Throughout the year, more and more clients switched to active status and benefited from the corresponding product advantages.

DKB Cash offers our clients a wide range of digital options. They range from contactless payment with debit cards and DKB VISA cards to online account changes, online cashback, mobile phone top-ups and the multibanking function for an overview of finances even with third-party bank accounts, and the use of payment services such as PayPal.

Personal loans: two-brand strategy is paying off

The DKB personal loan continues to be well received. In the case of a loan agreement, both unscheduled repayments and early repayment remain possible at any time free of charge. Since February 2018, it has been possible to conclude and process instalment loans entirely digitally. Our two-brand strategy is proving its worth. Overall, new business last year was 6% up on the previous year. The share in new business of the second brand, SKG BANK, averaged 33% for the year.

DKB Broker: number of custody accounts rose further

Supported by the improvement of our range of products and services and client relationship measures throughout the year, we once again expanded our securities business in 2018 and increased the scope of use for existing clients. In total, the number of retail custody accounts rose by 33% to approximately 249,000 (previous year: 187,000 custody accounts). With more than 1.6 million securities orders executed, the degree of utilisation of the broker offer was far above that of the previous year (more than 1.1 million). The ETFs (exchange-traded funds) offered for savings plans continued to meet with high demand, which also led to an increase in active ETF savings plans in the reporting period.

Co-branding portfolio: technical synergies enhanced

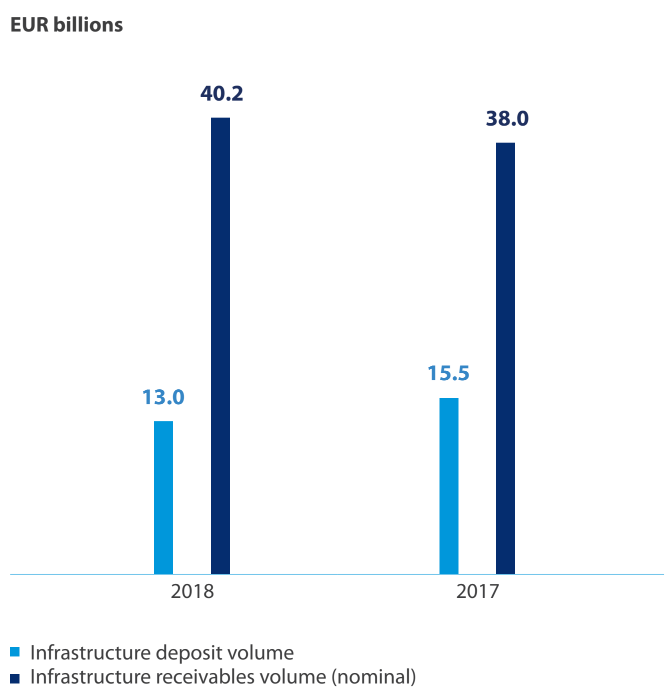
In cooperation with strategic partners such as Lufthansa, Porsche, Hilton, BMW and MINI, we offer credit card services in our co-branding portfolio. The number of co-branded cards issued amounted to 653,000 in 2018, unchanged compared to the previous year. In 2018, the portfolios of Lufthansa Miles & More and Porsche were migrated to a new technical platform in order to leverage synergies and continue to promote technological innovation.

Infrastructure segment

Stable overall performance

The framework conditions for the infrastructure segment in 2018 were characterised by strong competition, which intensified even further as a result of the establishment of digital platforms. The price war in the markets also continued. In this environment, new business with clients in this segment developed at a significantly higher level than in the prior-year period, rising to EUR 5.7 billion as of 31 December 2018 (2017: EUR 4.8 billion). The volume of receivables (nominal) increased significantly despite varying dynamics in the client groups and amounted to EUR 40.2 billion as of the balance sheet date (2017: EUR 38.0 billion). Deposit business fell to EUR 13.0 billion compared with the previous year (EUR 15.5 billion) as a result of management measures relating to terms in line with the bank's strategy.

Infrastructure deposit and receivables volume



Local authorities and social infrastructure: performance at the previous year's level

Despite strong competitive pressure, the market environment for this client group remained positive. The need for investment in communal and social infrastructure remains high. Due to the relatively good budget situation, public-sector demand for credit weakened slightly in the course of the year and only increased again towards the end of the third quarter in order to reduce the investment backlog. Since October 2018, we have also been offering our services via municipal platforms in order to meet the growing trend in business via digital platforms. The social economy, and above all the welfare agencies, invested increasingly in the creation of educational and health facilities such as day-care centres, nursing homes and housing for assisted living during the reporting period. The client base increased in 2018 to 11,590 clients (previous year: 10,260 clients).

Energy and utilities: demand and repayments high

Demand for loans from utilities and waste management companies remained at a high level in 2018, with new lending business picking up across all target sectors. Demand for loans with depreciation-compliant terms increased. At the same time, clients' willingness to repay remained high during the reporting period. Accordingly, our lending business remained stable in an intensely competitive environment. New lending business continued to be dominated by investments in the energy, water/waste water and transport sectors. A trend towards Smart City and digitalisation investments was discernible in the municipal utilities and municipal enterprises.

Housing: investment demand continues

In the housing client group, demand for loans remained high in 2018 due to the ECB's continued low interest rate policy. The market was characterised by fierce competition and high pressure on margins. Investments were mainly made in new construction and the implementation of energy-saving measures, as well as in existing housing stock for the needs-based adaptation and development of residential space. Parallel to the demand for traditional bank financing, demand for capital market products or capital-market-based products, such as promissory note loans, increased in the year under review. Given the low interest rate environment, housing companies continued to implement their debt relief strategy, especially in the demographically weaker regions.

Housing companies' market penetration remained high and almost unchanged at 80% in the past year (previous year: 81%). The calculation is based on the percentage of companies in the target clients segment with which DKB has a business relationship.

Administrations: significant increase in volume and client base

We recorded an extremely positive development in our business with administrations in 2018, with strong demand from new clients. Assets managed on administrator accounts increased significantly by EUR 0.6 billion to EUR 3.9 billion. As of 31 December 2018, more than 10,100 commercial property managers (previous year: 9,050) managed the portfolios of more than 55,700 condominium owners' associations (previous year: 48,600) with DKB AG.

Civic participation: project range goes beyond energy issues

In the area of civic participations, we provide funding support for regional investments in renewable energies and infrastructure projects in which local clients and citizens are involved. We support our clients in their civic participation activities with an individual product range. Whereas financial year 2018 was characterised by fierce competition from banks on the one hand due to a declining number of renewable energy projects – especially civic wind projects – increasing demand for financing in special housing concepts such as communal living was also recorded.

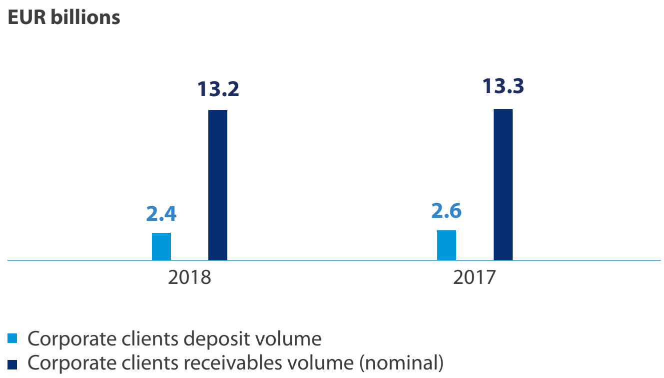
In the reporting period, we supported 15 new projects, bringing the total number of civic participation projects managed by us to 118 as of the balance sheet date.

Corporate clients segment

Lending business almost at previous year's level

The corporate clients segment recorded slight declines in the reporting year in a highly competitive environment. Although new business was supported by the financing of wind power and photovoltaic projects, it was unable to fully compensate for a noticeable reluctance to invest and the high repayments. The volume of receivables (nominal) at the reporting date was EUR 13.2 billion, slightly below the previous year's figure of EUR 13.3 billion. The volume of deposits declined year-on-year due to management factors and amounted to EUR 2.4 billion (previous year: EUR 2.6 billion).

Corporate clients deposit and receivables volume



The integration of syndicated business, leasing and factoring into the corporate clients segment as part of internal restructuring in line with our strategy created the conditions for better exploitation of sales potential.

Environmental technology: extraordinary year for the wind energy industry

As expected, 2018 was a challenging year for the wind energy industry. The legal framework changed in 2017 and the increasingly complex approval procedures unsettled many players, which had a negative impact on demand. The significant decline in new projects ready for financing led to a further intensification of the already strong competition among banks active in this market segment. In order to continue to be successful, we have comprehensively reviewed and modernised our financing standards.

The expansion of photovoltaic systems in 2018 developed in line with expectations. The trend towards reducing the remuneration levels in the tender system continued. Demand for smaller plants outside the tender system also remained stable. Despite noticeably increasing competition, we successfully maintained our strong market position in the photovoltaic segment.

To enable us to exploit the opportunities arising from the energy transformation process in Germany, we developed additional financing options in this business segment in the reporting year with selected storage technologies and energy contracting models.

Food and agriculture: drought puts pressure on investment activity

The pronounced drought in the spring and summer of 2018 caused grain yields to fall compared with the multi-year average. Milk producers and operators of biogas plants were able to offset the loss of feed yields with reserves from the excellent harvests of the previous year. Milk producer prices recovered during the year after initial weaknesses. Nevertheless, investment activity by farmers remained subdued in the course of the year – also due to the drought and the resulting crop failures.

The investment climate was more favourable for land purchases and for the acquisition of agricultural holdings as part of generational changes. In addition, the food industry recorded an increase in investments in food processing production facilities.

Tourism: volume decreases due to disposals

The number of overnight stays in Germany has risen faster than the number of new beds on offer nationwide in recent years. Due to the product shortage in the real estate market, combined with a yield premium over other assets, hotels continue to be a sought-after investment. New business developed positively in this market environment compared with the previous year. At the same time, numerous portfolio holders sold their projects in 2018. These sales-related portfolio disposals could not be fully offset by new business.

Financial markets segment

Liquidity increased

Market developments led to a decline in hidden reserves and revaluation reserves in DKB's liquidity portfolio.

In order to increase our regulatory liquidity buffer, we increased our portfolio of highly liquid securities, according to the definitions of the capital adequacy regulation, by EUR 0.4 billion (net nominal) to EUR 6.1 billion in 2018 as of the reporting date.

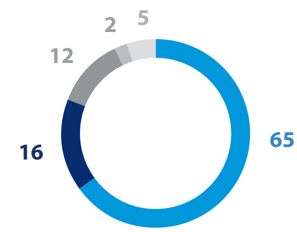
In 2018, a total of EUR 386 million in treasury securities matured.

Refinancing: first social bond issued

DKB's main pillars of refinancing continue to comprise deposits from its clients, its development business and its bond issues. Client deposits grew slightly by EUR 0.5 billion to EUR 54.4 billion.

Our refinancing sources

in %



- Customer deposits
- Development business
- Capital market
- Other liabilities
- Equity

Following the successful green bond issues of previous years, DKB issued its first social bond in September 2018. The social public-sector Pfandbrief with a volume of EUR 500 million focuses on refinancing in the areas of social housing, utilities and transport, health and care, education and research, and inclusion in Germany. This makes DKB the first commercial bank to market both green and social bonds in Germany.

Parallel to the social bond, DKB issued registered Pfandbriefs with a total volume of EUR 50 million last year (previous year: EUR 125 million).

Moody's continued to give our mortgage and public Pfandbriefs the best rating "Aaa". Moody's maintained its issuer rating for uncovered bonds at A2.

DKB's ratings

	Public-sector Pfandbriefs	Mortgage Pfandbriefs	Company and/or issuer rating (uncovered bonds)
Moody's rating	Aaa	Aaa	A2
oekom rating	–	–	B- (prime status)
imug rating	very positive (A)	positive (BBB)	positive (BB)

In 2018, new programme loans with a volume of EUR 1.3 billion (31 December 2017: EUR 1.7 billion) were agreed.

In the KfW programmes "Energy-efficient construction" and "Renovation for the energetic improvement of residential buildings", which were subsidised particularly by federal funds, demand was similarly high as in the previous year due to continued construction activity.

Total transit and global loans amounted to approximately EUR 12.4 billion at the end of 2018 (31 December 2017: EUR 13.5 billion).

Other segment

In the "other" segment, we deal with cross-divisional transactions and contributions to earnings which cannot be allocated to the segments according to source. These include the central administrative expenses of DKB AG, the earnings contribution of DKB Service GmbH and the non-core business.

DKB Service GmbH continued its activities in line with its task profile for the DKB Group. In the first half of 2018, it again provided the majority of its services for DKB AG.

As a result of the successful reduction in non-core business activities in recent years and the resulting very low level of inventories (receivables volume as at 31 December 2018: less than EUR 0.2 billion), non-core business has been allocated to the "other" segment as of 2018.

Results of operations and net assets of the DKB Group (IFRS)

Results of operations

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Net interest income	976.7	935.2	41.5	4.4
Risk provisions	–	–127.3	127.3	>100.0
Risk result	–111.8	–	–111.8	>–100.0
Net interest income after risk result/provision	**864.9**	**807.8**	**57.0**	**7.1**
Net commission income	–33.7	–39.2	5.6	14.2
Gains or losses on fair value measurement	2.8	89.7	–86.9	–96.9
Gains or losses on hedging transactions	–43.5	–124.2	80.7	65.0
Gains or losses on financial investments	0.4	20.9	–20.4	–98.0
Administrative expenses	–474.7	–446.3	–28.3	–6.4
Expenses from the bank levies, deposit protection and banking supervision	–40.3	–37.4	–2.9	–7.8
Other income and expenses	25.2	–3.2	28.4	>100.0
Gains or losses on restructuring	–0.0	–3.4	3.3	99.3
Profit/loss before taxes	**301.2**	**264.7**	**36.5**	**13.8**
Income taxes	–0.1	–1.5	1.4	94.0
Consolidated profit/loss	301.1	**263.2**	**37.9**	**14.4**

The DKB Group was able to significantly increase its consolidated net profit in 2018 compared with the previous year. The main reason for this was the positive development in net interest income due to the generally good business performance of the DKB Group's market divisions and lower interest expenses from interest rate hedges.

Net interest income

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Interest income and positive interest expenses	1,722.5	1,878.3	–155.8	–8.3
Interest expenses and negative interest income	–745.8	–943.1	197.3	20.9
Net interest income	**976.7**	**935.2**	**41.5**	**4.4**

Net interest income is allocated to the segments as follows:

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Retail clients	424.1	394.3	29.8	7.6
Infrastructure	349.0	316.9	32.1	10.1
Corporate clients	190.1	160.5	29.6	18.4
Financial markets	5.3	41.8	–36.5	–87.3
Non-core business*	–	6.1	–6.1	>–100.0
Other	25.9	20.8	5.1	24.5
Reconciliation/Consolidation	–17.7	–5.2	–12.5	>–100.0
Net interest income	**976.7**	**935.2**	**41.5**	**4.4**

*As a result of the successful reduction in non-core business activities in recent years, non-core business has been allocated to the ”other“ segment as of this year.

Risk result/risk provision

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Risk provision result	–104.8	–127.3	22.6	17.7
Result from the disposal of AAC category financial instruments	–7.0	–	–7.0	>–100.0
Risk result	**–111.8**	**–127.3**	**15.6**	**12.2**

The risk result/risk provision is allocated to the segments as follows:

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Retail clients	–25.8	–43.9	18.1	41.2
Infrastructure	–7.2	–22.8	15.6	68.4
Corporate clients	–68.6	–51.4	–17.2	–33.5
Non-core business*	–	–8.5	8.5	>100.0
Other	–10.2	–0.7	–9.5	>–100.0
Reconciliation/Consolidation	–	–	–	–
Risk result	**–111.8**	**–127.3**	**15.6**	**12.2**

*As a result of the successful reduction in non-core business activities in recent years, non-core business has been allocated to the ”other“ segment as of this year.

Net commission income

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Credit card business	22.8	8.6	14.1	>100.0
Lending business	–17.0	–4.4	–12.6	>–100.0
Payments	–46.4	–55.5	9.2	16.5
Other net commission income	6.9	12.0	–5.1	–42.5
Net commission income	**–33.7**	**–39.2**	**5.6**	**14.2**

Net commission income is allocated to the segments as follows:

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Retail clients	–53.4	–76.0	22.6	29.7
Infrastructure	7.1	3.6	3.5	97.2
Corporate clients	15.4	25.2	–9.8	–38.9
Financial markets	–3.1	–2.6	–0.5	–19.2
Non-core business*	–	0.2	–0.2	>–100.0
Other	–16.7	2.1	–18.8	>–100.0
Reconciliation/Consolidation	17.0	8.3	8.8	>100.0
Net commission income	**–33.7**	**–39.2**	**5.6**	**14.2**

*As a result of the successful reduction in non-core business activities in recent years, non-core business has been allocated to the "other" segment as of this year.

Gains or losses on fair value measurement

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Result from derivatives in commercial hedging relationships	5.8	89.7	–83.9	–93.5
Fair value gains/losses from FVPLM financial instruments	–3.0	–	–3.0	>–100.0
Gains or losses on fair value measurement	**2.8**	**89.7**	**–86.9**	**–96.9**

As a result of the introduction of IFRS 9, the Group also reports changes in fair value from FVPLM financial instruments in the fair value result, in addition to the result from derivatives in commercial hedging relationships. This primarily includes the funds held by the DKB Group and shares in companies.

The decline in the result from derivatives in commercial hedging relationships compared with the previous year is due to significantly lower portfolios of corresponding interest rate hedging transactions.

Gains or losses on hedging transactions

The result from hedging transactions reflects the interest-rate-induced effects of the interest rate derivatives concluded by DKB for hedging purposes and their underlying transactions as part of hedge accounting.

Gains or losses on financial investments

As in the previous year, gains or losses on financial investments arose on the proceeds from the sale of securities.

Administrative expenses

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Staff costs	–247.3	–228.0	–19.2	–8.4
Other administrative expenses	–218.6	–210.6	–8.0	–3.8
Depreciation and impairments on property, plant and equipment and intangible assets	–8.8	–7.7	–1.1	–14.6
Administrative expenses	**–474.7**	**–446.3**	**–28.3**	**–6.4**

The higher personnel expense results from the agreed increase in pay rates and the required increase in staffing.

The other administrative expenses increased mainly due to higher levels of investment in digitalisation and the continued high demands imposed by regulatory requirements.

Administrative expenses are allocated to the segments as follows:

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Retail clients	–224.3	–206.9	–17.4	–8.4
Infrastructure	–135.0	–88.4	–46.6	–52.7
Corporate clients	–72.1	–65.1	–7.0	–10.8
Financial markets	–12.6	–6.6	–6.0	–90.9
Non-core business*	–	–16.9	16.9	>100.0
Other	–186.3	–201.0	14.7	7.3
Reconciliation/Consolidation	155.6	138.6	17.0	12.3
Administrative expenses	**–474.7**	**–446.3**	**–28.3**	**–6.4**

*As a result of the successful reduction in non-core business activities in recent years, non-core business has been allocated to the "other" segment as of this year.

Expenses from the bank levies, deposit protection and banking supervision

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Bank levy	–22.1	–19.6	–2.5	–12.8
Deposit guarantee scheme	–15.1	–14.9	–0.2	–1.2
Banking supervision	–3.1	–2.9	–0.2	–8.1
Expenses from the bank levies, deposit protection and banking supervision	**–40.3**	**–37.4**	**–2.9**	**–7.8**

Other income and expenses

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Other income	60.0	42.0	17.9	42.6
Other expenses	–34.7	–45.2	10.5	23.2
Other income and expenses	**25.2**	**–3.2**	**28.4**	**>100.0**

The other result improved in particular due to lower charges from the provision for legal risks.

Return on capital in accordance with Section 26a (1) sentence 4 German Banking Act (KWG) (ratio of net gains and total assets)

The return on investment in the financial year was 0.39% (previous year: 0.34%).

Net assets

Assets

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Cash reserves	1,046.2	1,742.8	–696.6	–40.0
Loans and advances to banks	3,687.8	4,601.6	–913.8	–19.9
Loans and advances to clients	65,932.5	64,552.2	1,380.3	2.1
Risk provisions	–420.7	–356.9	–63.8	–17.9
Portfolio hedge adjustment	407.1	455.4	–48.3	–10.6
Assets held for trading	3.2	3.6	–0.3	–9.8
Positive fair values from derivative financial instruments	0.0	–	0.0	0.0
Financial investments	6,362.3	6,027.9	334.4	5.6
Other assets	369.1	296.4	72.7	24.5
Total assets	**77,387.6**	**77,322.9**	**64.7**	**0.1**

The changes in the cash reserve and in loans and advances to banks result from the DKB Group's operational liquidity management.

The increase in loans and advances to clients is attributable to the Infrastructure segment (EUR +2,168.6 million).

By contrast, loans and advances to clients declined in the Retail Clients (EUR –565.2 million) and Corporate Clients (EUR –84.7 million) segments.

The risk provisions developed as follows in the financial year:

EUR millions	Level 1	Level 2	Level 3	POCI	Total
As at 1 Jan.	**–41.7**	**–115.4**	**–265.4**	**–0.9**	**–423.4**
Additions from lending/purchases	–18.2	–9.1	–61.1	–6.0	–94.4
Reversals from disposal/repayment/sale	14.3	93.1	128.1	14.1	249.5
Credit-rating-related changes	–1.2	–101.9	–153.0	–12.2	–268.4
Usage/depreciation	0.0	0.0	107.3	0.0	107.4
Reallocation to Level 1	–10.0	10.0	–	–	0.0
Reallocation to Level 2	14.0	–20.7	6.7	–	0.0
Reallocation to Level 3	4.4	28.6	–33.0	–	0.0
Unwinding	–	–	8.7	0.0	8.6
As at 31 Dec.	**–38.4**	**–115.4**	**–261.8**	**–5.0**	**–420.7**

The portfolio hedging transactions is determined from the fair value hedges on interest rate risks formed at the portfolio level. The development of the portfolio hedge adjustment corresponds to the development of the market values from derivative financial instruments (hedge accounting).

The increase in financial investments is mainly due to purchases made with a view to the regulatory level of liquidity that must be maintained in accordance with Basel III/CRD IV. Sales and scheduled maturities had a compensating effect.

Liabilities

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Liabilities to banks	13,813.3	14,381.1	–567.8	–4.0
Liabilities to clients	54,366.1	53,931.0	435.1	0.8
Securitised liabilities	4,622.3	4,725.1	–102.8	–2.2
Trading liabilities	1.2	22.3	–21.1	–94.8
Negative fair values from derivative financial instruments	17.0	17.7	–0.7	–4.2
Provisions	180.4	164.4	16.0	9.8
Other liabilities	265.2	141.1	124.0	87.9
Subordinated capital	781.7	684.7	97.0	14.2
Equity	3,340.4	3,255.5	85.0	2.6
Total assets	**77,387.6**	**77,322.9**	**64.7**	**0.1**

The changes in loans and advances to banks result from the DKB Group's operational liquidity management.

The increase in liabilities to clients is mainly attributable to the Retail Clients segment (+EUR 3,479.9 million). By contrast, client deposits declined in the Infrastructure (EUR –2,426.9 million) and Corporate Clients (EUR –144.3 million) segments.

The development of securitised liabilities, which include public and mortgage Pfandbriefs as well as bearer bonds, results from the issue of new securities that fall short of the maturities of the financial year.

The decrease in trading liabilities results from the lower portfolios of interest rate derivatives entered into for hedging purposes compared with the previous year, which are not subject to hedge accounting in accordance with IAS 39.

Negative market values from derivative financial instruments (hedging transactions) are determined from the fair value hedges on interest rate risks formed at the portfolio level. The performance of negative market values from derivative financial instruments corresponds to the portfolio hedge adjustment on the assets side.

DKB's derivatives were subject to the clearing obligation imposed by the European Market Infrastructure Regulation (EMIR). For this reason, the negative market values were netted against the cash securities deposited for the derivatives subject to clearing.

Provisions include, in particular, provisions for pensions and other long-term staff obligations, provisions for litigation risks and provisions in the lending business.

The risk provisions in the lending business developed as follows in the financial year:

EUR millions	Level 1	Level 2	Level 3	POCI	Total
As at 1 Jan.	**–5.3**	**–11.7**	**–10.5**	–	**–27.5**
Additions from lending/purchases	–12.7	–5.0	–28.8	–6.2	–52.7
Reversals from disposal/repayment/sale	10.4	25.5	25.7	3.7	65.3
Credit-rating-related changes	2.1	–17.8	–13.0	0.4	–28.4
Reallocation to Level 1	–1.0	1.0	–	–	0.0
Reallocation to Level 2	0.7	–1.0	0.3	–	0.0
Reallocation to Level 3	0.3	0.5	–0.8	–	0.0
Unwinding	–	–	1.0	0.1	1.1
As at 31 Dec.	**–5.6**	**–8.6**	**–26.1**	**–2.1**	**–42.3**

The increase in other liabilities is mainly due to the EUR 95.1 million liability from the transfer of profits to BayernLB (previous year: EUR 0.0 million).

In 2018, DKB further strengthened its regulatory capital by raising subordinated capital of EUR 100.00 million.

Reported equity consists of the following:

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Subscribed capital	339.3	339.3	0.0	0.0
Capital surplus	1,414.4	1,414.4	0.0	0.0
Retained earnings	1,303.8	1,093.3	210.5	19.3
Revaluation surplus	59.9	133.5	–73.6	–55.1
Consolidated net retained profits/net accumulated losses	223.0	274.9	–51.9	–18.9
Equity	**3,340.4**	**3,255.5**	**85.0**	**2.6**

Retained earnings increased by EUR 212.4 million mainly due to the allocation of the consolidated balance sheet profit from the previous year less the first-time application effect of IFRS 9.

At EUR 59.9 million, the revaluation reserve resulted primarily from the fair value measurement of FVOCIM financial instruments. The decline compared to the end of the previous year is mainly due to a reclassification of EUR 52.3 million to retained earnings due to the first-time application of IFRS 9.

The change in the consolidated profit results from the consolidated net income less allocations to retained earnings.

Results of operations and net assets of DKB AG (HGB)

Results of operations

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Net interest income and income from investments	983.3	935.0	48.3	5.2
Net commission income	–76.5	–87.8	11.3	12.9
Administrative expenses and amortisation of intangible assets	–463.6	–431.1	–32.5	–7.5
Other operating profit	–19.0	–46.0	27.0	58.7
Operating profit before risk provisions and net measurement gain	**424.2**	**370.1**	**54.1**	**14.6**
Risk provisions and net measurement gain	–129.1	–114.8	–14.3	–12.5
Extraordinary profit/loss	0.0	–3.3	3.3	100.0
Result before additions pursuant to Section 340g HGB	**295.1**	**252.0**	**43.1**	**17.1**
Addition pursuant to Section 340g HGB	–200.0	–252.0	52.0	20.6
Result before profit transfer	**95.1**	**0.0**	**95.1**	**>100.0**
Profits transferred	–95.1	0.0	–95.1	>–100.0
Net profit for the year	**0.0**	**0.0**	**0.0**	**0.0**

In 2018, DKB AG significantly increased its earnings before additions pursuant to Section 340g HGB compared with the previous year. The main reason for this was the positive development in net interest income and income from investments due to the generally good business performance of DKB AG's market divisions and lower interest expenses from interest rate hedges.

Net interest income and income from investments

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Interest income	1,694.6	1,854.5	–159.9	–8.6
Interest expenses	–724.9	–928.3	203.4	21.9
Current income from shares and other variable-yield companies, participating interests and shares in affiliated companies	3.1	3.8	–0.7	–18.4
Income from profit pools, profit transfer and partial profit transfer agreements	10.5	5.0	5.5	>100
Net interest income and income from investments	**983.3**	**935.0**	**48.3**	**5.2**

Loans and advances to clients and liabilities to clients include interest income of EUR 1,630.8 million (previous year: EUR 1,780.3 million) and interest expenses of EUR 230.9 million (previous year: EUR 276.1 million). The respective decrease is due to the continuing low interest rate level despite an expansion of the relevant business volume. The further decline in interest expenses is primarily due to the lower interest expenses from interest rate hedges amounting to EUR 198.5 million (previous year: EUR 334.7 million).

Net commission income

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Commission income	241.2	316.3	–75.1	–23.7
Commission expenses	–317.7	–404.1	86.4	21.4
Net commission income	**–76.5**	**–87.8**	**11.3**	**12.9**

Commission income includes commissions and fees from the card business amounting to EUR 173.3 million (previous year: EUR 242.2 million).

Commission expenses of EUR 146.3 million (previous year: EUR 236.9 million) mainly relate to the card business and EUR 56.7 million (previous year: EUR 58.7 million) to payment transactions.

In the reporting year, commission income and commission expenses from the provision of ancillary and insurance services in the card business were netted in the amount of EUR 78.1 million in order to improve the picture of the earnings situation and to adjust to uniform Group accounting guidelines.

Administrative expenses and amortisation of intangible assets

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Staff costs	–168.9	–152.3	–16.6	–10.9
Other administrative expenses	–292.7	–278.4	–14.3	–5.1
Amortisation of intangible assets	–2.0	–0.4	–1.6	>–100
Administrative expenses and amortisation of intangible assets	**–463.6**	**–431.1**	**–32.5**	**–7.5**

The higher personnel expenses result from the agreed increase in pay rates and the required increase in staffing.

The other administrative expenses increased mainly due to higher levels of investment in digitalisation and the continued high demands imposed by regulatory requirements.

Other operating profit

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Other operating income	26.6	11.9	14.7	>100
Other operating expenses	–45.6	–57.9	12.3	21.2
Other income and expenses	**–19.0**	**–46.0**	**27.0**	**58.7**

The improvement in the other operating result is due in particular to lower charges from the provision for legal risks.

Other operating income relates primarily to income from cost reimbursements and the reversal of provisions.

Other operating expenses mainly include losses from misuse in the credit card business and legal risks, as well as the contribution to the restructuring fund for banks (bank levy).

Risk provisions and net measurement gain

Risk provisions and net measurement gain is composed as follows:

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Risk provisions in the lending business	–116.8	–122.5	5.7	4.7
Net measurement gain on securities and investments	–12.1	7.7	–19.8	>–100.0
Expenses from loss assumptions	–0.2	0.0	–0.2	>–100.0
Risk provisions and net measurement gain	**–129.1**	**–114.8**	**–14.3**	**–12.5**

Risk provisions for the lending business result from a net allocation to risk provisions of EUR 106.0 million (previous year: EUR 113.9 million) and direct write-offs of EUR 21.5 million (previous year: EUR 20.9 million), as well as receipts on receivables written off amounting to EUR 10.7 million (previous year: EUR 12.3 million).

The decline in the valuation result of the securities portfolio and investments is mainly due to unrealised price losses due to the market development in 2018.

Addition pursuant to Section 340g HGB

To increase its equity recognised for regulatory purposes, DKB AG allocated EUR 200.0 million to the reserve pursuant to Section 340g HGB in the financial year.

Return on capital in accordance with Section 26a (1) sentence 4 German Banking Act (KWG) (ratio of net gains and total assets)

Based on the result before profit transfer and allocation according to 340g HGB, the return on investment in the financial year was 0.38% (previous year: 0.33%).

Net assets

Assets

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Cash reserves	1,046.2	1,742.8	–696.6	–40.0
Loans and advances to banks	3,688.3	4,602.0	–913.7	–19.9
Loans and advances to clients	65,481.3	64,139.7	1,341.6	2.1
Bonds and other fixed-income securities	6,176.9	5,825.9	351.0	6.0
Other assets	1,040.1	948.5	91.6	9.7
Total assets	**77,432.8**	**77,258.9**	**173.8**	**0.2**

Liabilities

	2018 in EUR millions	2017 in EUR millions	Change in EUR millions	Change in %
Liabilities to banks	13,909.0	14,516.3	–607.3	–4.2
Liabilities to clients	54,412.6	53,928.3	484.3	0.9
Securitised liabilities	4,700.5	4,797.0	–96.5	–2.0
Provisions	195.8	208.2	–12.4	–6.0
Other equity and liabilities	215.2	106.4	108.8	>100
Subordinated capital, profit participation rights and additional regulatory core capital	781.8	684.8	97.0	14.2
Reserve pursuant to Section 340g HGB	782.0	582.0	200.0	34.4
Equity	2,435.9	2,435.9	0.0	0.0
Total assets	**77,432.8**	**77,258.9**	**173.8**	**0.2**

The net asset position of DKB AG is almost the same as that of the DKB Group. For this reason, only the items that differ significantly to the DKB Group are mentioned below.

Other assets consist primarily of cash collateral for derivatives subject to clearing requirements (EUR 685.4 million, previous year: EUR 666.3 million).

The increase in other liabilities is mainly due to the EUR 95.1 million liability from the transfer of profits to BayernLB (previous year: EUR 0.0 million).

Balance sheet equity comprises subscribed capital (EUR 339.3 million), the capital reserve (EUR 1,414.4 million) and retained earnings (EUR 682.2 million).

Financial position of DKB

DKB's liquidity management is based on the principles derived from the German Banking Act (KWG), which are explained in the risk report. For this reason, we will refrain from including a detailed analysis of the cash flow statement at this point, and instead refer to the statements made in the risk report and to the cash flow statement of the DKB Group.

Non-financial performance indicators

In addition to financial performance indicators, we also use non-financial performance indicators in the management of our company. In order to achieve our targets in this respect, our focus is not on quantitative KPIs but on numerous measures.

We distinguish between three focal areas with respect to the non-financial performance indicators:

– **Employees:** we focus our attention on the areas of employee satisfaction, further training levels and health.

– **Clients:** our key benchmark here is client satisfaction with respect to products, quality and innovations.

– **Sustainability:** as an organisation, we want to meaningfully combine our interplay of economic, ecological and social targets.

Employees

Increasing the number of IT specialists

The DKB Group had 3,431 employees on a capacity basis at the end of 2018, 11.3% more than in the previous year (3,084 employees). Of these, DKB AG employed 1,917 people (previous year: 1,716 employees).

The average age in the DKB Group was 42.9 years (previous year: 43.1 years). The proportion of employees under 30 years was 12.3% (previous year: 11.5%). The average length of service was 8.4 years (previous year: 8.5 years).

We prefer to fill open positions with qualified personnel from our company. In the event that this is not possible or that special expertise is required for certain task profiles which is not available in-house, we recruit suitable external staff. We followed this principle again in 2018.

In the reporting year, our focus in external recruitment was on IT specialists: DKB AG recruited 59 IT specialists in 2018. In addition, the entire Cringle GmbH team – exclusively IT and digitalisation experts – was integrated into DKB Code Factory GmbH. All of our new employees are supporting us in driving forward the digitalisation of our bank.

In order to raise DKB's profile as an employer, we conducted target-group-specific recruitment campaigns for the first time in 2018 and presented our company at the relevant trade fairs.

Attracting and retaining young talent

In line with the slogan "For tomorrow's bright minds", we continued our active work with young talent in 2018 with established and new programmes. We recruited 22 new trainees and dual students. Six trainees from the previous year were taken on as permanent employees. Five trainees from the current year have accepted an offer for 2019. Students can gain practical experience with us as working students and through internships.

In 2018, we added a new Junior Expert Programme to our introductory programme. It offers young professionals with specialist expertise a structured onboarding and continuing education programme. Six Junior Experts have already found their way to DKB via this route.

Modernising the world of work

Our goal is to use the new requirements and possibilities of the modern working world in a meaningful way for our company and to support our employees and managers in their daily work. In 2018, we began setting up a change management system for the change processes required in this context.

After having dealt with the topic of future working environments in various project groups at DKB and tested several working models, we were able to conclude a company agreement with the works council in 2018 with the catchword "Flexwork". Using Flexwork, we integrate the opportunities of digitalisation into our daily work in a meaningful way.

The concept of flexible working time models also contributes to further flexibility: since 2015, the first and second management levels of DKB AG have been working under the model of working hours based on trust. This promotes the topic of "work-life balance" and helps employees to assume more responsibility in their families.

Promoting equal opportunities

Equal opportunity has high priority at DKB: the proportion of women amounted to 56.2% at the year's end (previous year: 56.7%). At the first and second management levels, the proportion of women was 33.2% (previous year: 33.4%).

In order to boost equal opportunities in management positions, targets were defined at the various levels in the DKB Group. They also take into account the requirements of Section 111 (5) of the German Stock Corporation Act (AktG) in conjunction with the law promoting equal participation of men and women in management positions.

In order to further improve the underlying conditions for promoting women in the company, we offer female managers a special mentoring programme.

Aiming to meet targets

The Supervisory Board of DKB AG has 16 members, four of whom are women. This corresponds to a proportion of women of 25% and thus to the target figure aimed for by 30 June 2022 in the past financial year.

As DKB AG and DKB Service GmbH jointly make up the majority of the Group's employees, the figures for both companies are provided below:

The Board of Management of DKB AG comprises five members. The current proportion of women on the Board of Management is 0%. DKB has not set a different target figure. At DKB Service GmbH, two out of three management positions are occupied by women, therefore a proportion of women amounting to 67% has already been reached. The aim is not to allow this to fall below a target of 30%.

The proportion of women at the first management level is currently 17.4% at DKB AG (previous year: 16.7%). This is to be increased to 20% by 30 June 2022. DKB Service GmbH has a proportion of women of 14.3% at the first management level (previous year: 14.3%). It should be at least 30%. At the second management level, the proportion of women is currently 37.5% at DKB AG (previous year: 35.5%), at DKB Service GmbH it is 33.3% (previous year: 47.8%). At both companies, this share should amount to at least 30%.

Offering a wide range of social services

In order to retain our employees for the long term, we offer a wide range of special services. These include voluntary (and above the general pay scale) social benefits, subsidies for insurance policies and childcare, and benefits for retirement provision.

When it comes to childcare or looking after relatives, our employees can make use of consultations provided by external partners. They arrange childcare solutions, provide rapid assistance in the event of childcare bottlenecks and serve as contacts for issues on which employees need information.

In addition, we offer our employees economic incentives: the employees of DKB AG and its wholly owned subsidiaries can participate directly in the company's success by purchasing profit participation certificates. The profit participation certificates have a basic interest rate of 4% and a variable interest rate premium that is dependent on the cost/income ratio (pursuant to HGB).

Focused employee development

When developing our employees, we take into account the strategic requirements of our company as well as individual interests, opportunities and needs. Our offerings are based on a standard competency model that considers current and future employee requirements.

The in-house further training academy DKB MANAGEMENT SCHOOL offers seminars, specialist further training and team development to all employees. In 2018, some learning formats took place digitally for the first time. DKB MANAGEMENT SCHOOL had a total of 568 seminar events on its programme in the reporting period (previous year: 417 seminars). On average, each employee received 3.8 days of further training last year (previous year: 3.4 days).

We offer holistic curricula for selected target groups, such as the new First Leadership Programme for managers who are taking on a management role for the first time, which has been running since 2018. Measures such as internal and Group-wide job rotations, a cross-mentoring programme and individual coaching round off our offering.

We also continue to promote exchange and networking as forms of informal learning. Onboarding events allow new employees and colleagues from different departments to get to know each other and gain important insights into DKB. At the annual DKB Summer School, managers discuss current trends and topics.

Maintaining employee health

DKB's company health management was again awarded top marks in 2018 and again received the Corporate Health Award. Our aim is to provide our employees with a comprehensive range of preventive healthcare and health promotion services that go far beyond the legal requirements. The offers include health checks and the option to use external and internal advice centres.

The health rate in the DKB Group remained at a very high level of 95.1% in 2018 (previous year: 95.1%). This figure is calculated from the ratio of days missed due to illness compared to total working days.

Supporting commitment to corporate volunteering

Social engagement is a cornerstone of social cohesion. We contribute to this by offering our employees the opportunity to be involved outside the company as well. Everyone can take leave of absence for up to two working days a year and, for example, actively support the "My Finance Coach" initiative or the DKB STIFTUNG foundation. Through the personal commitment of volunteers, social engagement becomes an integral part of our corporate culture. In 2018, 85 employees worked a total of 511 hours on voluntary projects (previous year: 69 employees with 483 hours).

Clients

Increasing client benefit

The banking market is undergoing a clear transformation. With innovative solutions and new technologies, more and more providers are entering the market, including more than just fintechs. With the increasing number of market participants, the competition for clients increases, who in turn have high expectations of financial service providers. With this in mind, we are using our innovative strength to consolidate our market position and extend our lead. We continued to develop our products, processes and services in 2018. The most important goal is to increase client benefit, while at the same time maintaining the highest security standards, especially in data protection.

For our retail clients, we focus on expanding digital services that are intuitive to use, make banking easier and continually enhance the client experience. Wherever possible, we also enter into long-term cooperation on the technology and product sides.

It is our mission as a commercial bank for municipalities and medium-sized companies to advise our clients throughout Germany at a very high level. For this purpose, we employ specialists at our bank who know these fields inside out, also on a professional level, for example agricultural and civil engineers, as well as process and environmental engineers. These specialists work hand in hand with the bank's advisors and treat our clients from the respective sectors on an equal footing.

We focus on a sustainable client relationship with all our clients. In order to advise them as well as possible, we also work closely with numerous professional associations, development banks and scientific institutions.

New features and improvements

The past year was also marked by innovations and improvements in products, functions and services:

For example, we integrated Verified by Visa into our banking app and streamlined our app landscape from three to two apps. Since July 2018, our clients have also been able to open their TAN2go app with Touch ID and Face ID. With Card Control in the DKB Banking app, our clients can define the individual transactions with the DKB VISA card they would like to be notified about via push notification.

Since the beginning of August 2018, our retail clients have been able to deposit cash into their current accounts. With this cash deposit option, we have expanded the "Cash in Shop" service which had previously been used for cash withdrawals in retail stores.

In Internet banking, our clients can use the multibanking function to keep track of all their account transactions – including those at other banks – and thus have an overview of their entire finances.

Our clients have been receiving their Girocard, for example, with a contactless function for payments within Germany since mid-April 2018.

The RoboKredit project was launched during the reporting year to fully automate lending decisions in the private loan business. Previously, the application routes had already been digitised with an account check and authorised using a digital signature.

For young attorneys, we have redesigned a target client-focused product with major benefits in cooperation with the Deutscher Anwaltverein e. V. (German Lawyers' Association): the starter package is intended to make it easier for these clients to set up law firms.

Proximity to our retail clients and their needs were the focus of the launch of our online community "DKB Meet". For more than six months, we exchanged information on issues relating to DKB Cash with selected clients on a weekly basis. With interactive tasks, short interviews and tests, we learned about their opinions, experiences and wishes, and we will be able to incorporate everything into our future developments.

Since November 2018, our new cooperation with the Hamburg start-up Wechselpilot GmbH has enabled us to offer our clients simple and direct access to the digital range of automatic switching services offered by electricity and gas suppliers. The digital platform provides them with tariff recommendations. If a change of supplier is desired, Wechselpilot takes over all the contractual matters and all the communications with the old and new supplier.

Since December 2017, we have been offering our clients digital insurance management via robo-advisor in cooperation with Germany's leading insurance robo-advisor, Clark Germany GmbH. It enables clients to manage their insurance policies digitally via smartphone or computer. The insurance cockpit provides an overview of all existing insurance policies, gives an assessment of the overall insurance situation, evaluates existing contracts and suggests better policies. This value-added offer is accepted and increasingly used by our clients.

In 2018, the digital implementation of the existing DKB comparison of agricultural enterprises was completed. Our clients can access selected financial key figures from their annual financial statements in a web application and measure them with an individually configurable comparison group. This gives them an overview of their position in comparison to other agricultural enterprises and information on the potential for balance sheet optimisation.

Together with the Swiss technology company WinJi AG, we have been offering a digital performance benchmarking solution for investors, energy suppliers and operators of wind and photovoltaic plants since October 2018. The online asset management solution analyses production efficiencies and optimisation potential, and enables performance benchmarks independent of manufacturers. DKB corporate clients can access WinJi's powerful "True Power Platform" at preferential terms.

The pilot project for cooperation with commercial financing platforms initiated in 2017 was successfully completed in 2018 and is currently being transferred to normal operations. In a further test phase, we are also testing the use of financing platforms for the brokerage of corporate client enquiries that cannot be handled by DKB.

Sustainability

Sustainable business as the foundation of our enterprise value

For us, the meaningful combination of economic, ecological and social targets forms the basis for continuously and sustainably increasing the enterprise value. For this reason, we are continuously striving to maintain or even improve our sustainability performance to our very high standards.

We achieve this through:

– the orientation towards the basic principles of sustainability in all our business processes, taking into account the sustainability goals of the United Nations (Sustainable Development Goals, SDG for short) and the sustainability strategy of the German federal government;

– the sustainable orientation of our loan portfolio through a positive concept, in which only sustainable client groups that may be financed are defined;

– the provision of sustainable capital market products such as green bonds and social bonds;

– the design and sale of sustainable products for private clients, such as sustainable funds;

– the assumption of social responsibility through participation in socially beneficial projects;

– and the cultivation of dialogue with various stakeholder groups, as well as active participation in associations and initiatives on sustainable issues.

Focus on sustainable corporate client groups

DKB has one of the largest loan portfolios for investments in renewable energies in Germany (around EUR 10.4 billion). We have been supporting the energy transformation process since 1996 with financing and the development of corresponding in-house expertise. Over 4,500 photovoltaic, wind power, hydro power and biogas plants have since been realised with our financing. The installed electrical output is equivalent to 9 gigawatts. The electrical energy produced in this way meets the needs of over 5 million two-person households. The projects implemented by DKB can save around 12 million tonnes of CO_2 compared to the German electricity mix.

Our Housing division, with a volume of receivables of EUR 20.9 billion, also has a strong sustainable focus. Within this client group, the share of municipal housing associations and cooperatives is the largest. Its business purpose is to provide broad sections of society, including the socially disadvantaged, with affordable, sustainable housing.

Targeted lending, such as for the construction of apartments suitable for the elderly and families, energy-efficient real estate, and outpatient and inpatient health facilities, for construction projects in schools and day-care centres in Germany and for civic participation projects, is another key component of DKB's sustainable business model.

Sustainable retail products

With DKB Zukunftfonds, DKB offers an equity fund that has a very high ESG score and ranks at the top of its peer group (99th percentile). It has no investments that violate the UN Global Compact. The portfolio's carbon footprint is almost 50% better than the MSCI World AC footprint.

In 2018, the decision was made to restructure the DKB mutual funds in order to make the DKB funds even more sustainable, primarily through a European sustainability fund, a global climate protection fund and a global fund designed to improve the social infrastructure.

Capital market transformation: DKB issues green bonds and social bonds

DKB uses the extensive loan pool from its business with sustainable client groups as the basis for its green and social bond issues. Among others, we are a member of the Green Bond Principles and are active in the Social Bond Working Group, under whose direction the Social Bond Principles (SBP) were developed. To date, DKB has issued two green bonds (volume: EUR 500 million each) in 2016 and 2017, for which detailed information was published as part of a green bond report.

In 2018, DKB issued its first social bond in the format of a public Pfandbrief (volume: EUR 500.0 million). The social Pfandbrief is part of DKB's Social Bond Programme (total volume: EUR 1.5 billion) and, in addition to the Social Bond Principles, also takes into account the 17 Sustainable Development Goals of the United Nations (SDG). The Social Bond Programme is regularly verified by an external rating agency. DKB is thus the first German commercial bank to place both green and social bonds

Industry leader at ISS-oekom, highly positive evaluation at imug

The sustainability rating agencies imug and ISS-oekom audit DKB regularly for compliance with sustainability standards, for the presence of and compliance with in-house directives as well as for special measures designed to suit the business activity of our company.

In 2018, DKB reaffirmed its position as the industry leader in ISS-oekom research's sustainability rating. For the fourth time in a row, we received a "B-" and thus again the highest rating of all rated commercial, state and regional banks. DKB's corporate rating continues to mean that it holds "prime status" and is currently in the rarely awarded "good" category.

The bank's low level of risk with regard to controversies and ESG risks (environmental, social and corporate governance), as well as its performance as an employer and in the corporate governance sector, including ethical business practices, are essential for its repeatedly very good performance. oekom particularly appreciates our consistent focus on sustainability in lending.

The sustainability rating agency imug sees DKB's strengths in areas such as socially responsible products, environmental reporting, job security and equal opportunities, as well as cooperation with development banks.

Sustainability within the company

We publish our own environmental performance in our annual environment statement in accordance with EMAS (Eco-Management and Audit Scheme) and make our progress in this area transparent through the development of the core indicators of the EMAS locations.

Social engagement

DKB supports social and beneficial projects, primarily through corporate volunteering and the DKB STIFTUNG foundation for social commitment. In particular, this includes the activities of DKB STIFTUNG as an integration company, in the areas of monument preservation, education, and promotion of art and culture, as well as environmental protection and nature conservation. In 2018, DKB also donated EUR 100,000 to six social projects in Germany with the Christmas campaign #DKBHerzenswunsch. By means of a public vote, the total amount was distributed proportionately among the six initiatives.

Non-financial statement

DKB AG makes use of the exemption provision of Section 315b (2) sentence 2 HGB to add a non-financial Group statement to the Group management report. As the parent company within the meaning of this provision, Bayerische Landesbank (BayernLB) prepares a separate non-financial consolidated report in accordance with Section 315b (3) HGB. It is published together with the consolidated financial statements and the Group management report of BayernLB in accordance with Section 325 HGB in the electronic Federal Gazette and is also published on BayernLB's website (www.bayernlb.de) no later than four months after the closing date.

Report on opportunities and risks

Risk report

Unless explicitly stated otherwise, the risk report relates to the DKB Group in accordance with internal risk management. DKB AG, the parent company, has a dominant share of the DKB Group. The consolidated figures are therefore essentially from DKB AG.

Risks are understood as potential future developments or events that may result in negative deviations from forecasts or targets for the bank. For opportunities, we refer to the statements in the opportunities report.

For quantitative information that goes beyond the statements in the risk report, and in particular serves to meet the requirements of IFRS 7, we refer to the Notes to the consolidated financial statements (note "Risks from financial instruments").

Significant developments in the reporting period

Complying with the regulatory capital requirements and securing risk-bearing capacity are key elements in the management of the DKB Group. In the period under review, the DKB Group met both the regulatory requirements with regard to capital adequacy and liquidity, as well as the requirements for economic capital adequacy as part of the calculation of risk-bearing capacity. The DKB Group takes adequate account of all the known risks through precautionary measures and has implemented suitable instruments for detecting risks early on.

The method for quantifying credit risk was further developed throughout the reporting year. Since then, migration risks are determined in the credit portfolio model in an integrated way. Until now, migration risks had been taken into account by means of a flat-rate premium. The further development led to an increase in the risk capital requirement shown for credit risk and to a relief in the available cover assets.

In addition, as a result of the annual validation and maintenance of the method for quantifying counterparty default risks, market price risks and operational risks, parameters were also updated.

In the liquidation approach, the utilisation of the risk capital limit as at 31 December 2018 was 63% (previous year: 52%); this metric therefore remains at a comfortable level. The risk-bearing capacity was assured at all times in the entire reporting period.

In the stress testing carried out, the risk capital was also sufficient to cover the determined scenario losses.

There are currently no risks that could jeopardise the continued existence of the company.

Regulatory capital adequacy

The assessment of the appropriateness of equity is based on the European equity regulation “Capital Requirements Regulation” (CRR) and is carried out at the level of the individual institution in accordance with the standard approach for credit risk.

The corresponding bank regulatory KPIs of DKB AG are illustrated as follows:

Regulatory capital adequacy

EUR millions	31.12.2018	31.12.2017
Counterparty risks	31,490	30,892
Operational risks	1,355	1,192
Credit valuation adjustment (CVA)	0	0
Total positions subject to mandatory inclusion	32,845	32,084
Equity	3,649	3,359
of which core capital	3,078	2,810
of which hard core capital	2,978	2,762
Equity ratio	11.11%	10.47%
Core capital ratio (T1)	9.37%	8.76%
Hard core capital ratio (CET1)	9.07%	8.61%

The extension of the risk positions for the counterparty risks is mainly due to the growth in lending volume. The increase in operational risks is due to higher gross earnings in 2017.

Again, additional core capital of EUR 50.0 million was reported at the end of the year under review with the raising of AT1 capital, which led to a strengthening of the core capital ratio (T1).

Intangible assets and, for the first time as of 2018, irrevocable payment obligations to deposit protection systems or settlement funds, are reported as deductions from core capital.

As a result of allocations to AT1 capital and to the fund for general banking risks, the core capital ratio increased by 0.61% despite higher counterparty risks.

The proportional reduction of subordinate liabilities and their maturities was countered with new assumptions of EUR 50.0 million. As a result, the amount of eligible supplementary capital increased slightly to EUR 572 million (previous year: EUR 548 million). Profit participation rights liabilities increased slightly by EUR 2 million year-on-year to EUR 29 million.

The impacts in both capital components resulted not only in changes in the risk positions but also in an increase of 0.64% in the equity ratio to 11.11%.

The regulatory minimum capital backing requirement of 8.00% and the additional quotas required for the capital buffers since 1 January 2016 were met at all times.

Risk-oriented management

Organisation of risk management

The Risk Committee of the Supervisory Board monitors the risk management for which the Board of Management is responsible. The Risk Committee primarily deals with issues relating to business strategy, risk strategy and the risk situation. Furthermore, it decides on loans that, pursuant to the German Banking Act (KWG), are the responsibility of the Supervisory Board as well as on loans above the limits for which the Board of Management has authority.

The Board of Management bears the responsibility for the proper organisation of risk management and for implementing the risk strategy in the DKB Group. In order to meet its responsibility for implementing an appropriate and functioning risk management system, the Board of Management has established a risk management organisation that, in particular, is responsible for the determination and documentation of principles relating to the risk policy. Besides regulations for the organisation of structures and workflows, processes for identifying, assessing, managing, controlling and communicating risks are set out in accordance with MaRisk (German requirements for risk management).

The organisational structure for risk management was further developed in the 2018 financial year and individual units were renamed. The Non-Financial Risk division was established in order to bundle the tasks relating to the management of non-financial risks. The aim of this area is to establish a holistic view and uniform standards for operational and other non-financial risks at DKB. Uniform taxonomies for recording, measuring and managing these risks facilitate early identification and support reporting. The Non-Financial Risk unit supports the Risk Controlling unit with important components, such as carrying out the risk inventory and regularly reviewing and updating risk strategies.

The areas of Risk Controlling, Compliance, Credit Risk and Portfolio Management, Non-Financial Risk, and Compliance, as well as the Data Privacy and Occupational Safety unit, form the basis for the risk management and monitoring system and are assigned to the Chief Risk Officer or the Chief Financial Officer.

In accordance with MaRisk AT 4.4.1, Risk Controlling is responsible for the tasks related to risk controlling. In particular, this includes supporting the Board of Management in all risk policy matters, i.e. in particular in developing and implementing the risk strategy and in designing the system for limiting overall bank risks via risk management and controlling processes. The Risk Controlling division is supported in these tasks by various specialised divisions within DKB AG. Besides continuously monitoring the risk situation, risk-bearing capacity and risk limits, Risk Controlling also compiles ongoing risk reports.

Credit risk management is a joint task of the front office and back office, whereby the separation of functions is always ensured. The Credit Risk and Portfolio Management division is responsible for risk analysis, evaluation and management with regard to the risk-relevant exposures that are part of the core business and thus performs the back office function. Together with Risk Controlling (as part of portfolio management), this division is responsible for defining the credit risk strategy with regard to segments, client groups, individual clients and special products. Credit Risk and Portfolio Management provides the back office vote in the credit decision process.

The Compliance division works towards the implementation of effective procedures for compliance with the legal regulations and corresponding controls that are essential for the bank and manages risks from financial transactions in the areas of money laundering and fraud prevention as well as in the securities business.

The Data Protection and Occupational Safety department works to ensure compliance with the legal requirements of data protection and occupational health and safety as part of its advisory and controlling function.

The Audit division is responsible for the risk-oriented and process-independent auditing of the effectiveness and appropriateness of the risk management system. It is responsible for internal auditing tasks in accordance with MaRisk BT 2. The objectives of internal auditing are to monitor the effectiveness, efficiency and propriety of business activities, as well as to facilitate optimisation of the control and monitoring procedures.

Risk strategy

The Board of Management is responsible for determining and implementing the risk strategy, reviews it as required and adjusts it to current developments where applicable. As part of the annual review and updating process, the risk strategy is brought to the attention of and discussed with all members of the Supervisory Board. As a significant requirement for banking business, it forms part of the written rules of procedure.

The risk strategy consists of several sub-risk strategies and comprises the principles for the individual major risk types. The specific elements of the risk management system (methods, instruments and processes) are described in detail in other documents of the written regulations.

The content of the risk strategy is based on DKB AG's business strategy and takes into account the corresponding requirements of the BayernLB Group's risk strategy. The risk strategy defines the objectives of risk management in the major business activities and thereby specifies the planning premises made in the business strategy with respect to the identification, control and monitoring of significant risks.

The stipulations set out in the risk strategy are intended to meet the company's objectives based on the risk profile aimed for over time and thereby to ensure a balanced risk-return ratio, as well as continuous risk-bearing capacity. The risk strategy therefore forms the basis for guaranteeing risk-bearing capacity.

The risk strategy sets out the DKB Group's fundamental approach for assuming risk and risk management, in a manner consistent with the business strategy. Deriving the risk strategy from the business strategy is a component of the established strategy process. Together with the business strategy and the risk-bearing capacity concept, the risk strategy includes the underlying conditions for the internal risk capital allocation and planning process. The risk capital provided is determined and distributed across the risk types as part of the formulation of risk tolerances for the individual types of risk. In this process, potential adverse developments are also taken into account. The amount of the risk capital provided is in line with the risk capital requirement limit and documents the DKB Group's risk appetite.

In addition, the risk strategy sets out the framework conditions for granting loans and for the composition of the securities portfolio. In principle, the commitment focuses only on business fields in which the DKB Group has the relevant expertise to assess and manage the specific risks. Entering new business fields or adding new products generally requires adequate risk analysis.

As a member of the BayernLB Group, the DKB Group is included in its Group-wide risk management and risk-bearing capacity concept. In principle, the DKB Group applies the standards and methods applicable at BayernLB. Should the DKB Group's risk profile require a different view, the Group will use its own procedures and methods that are coordinated with the central Risk Controlling unit of the BayernLB Group. The DKB Group follows the stipulations of the Group risk strategy (including sub-risk strategies) of BayernLB and is also obligated to comply with the guidelines applicable throughout the Group. The Group Risk Control division of BayernLB monitors the risk strategy requirements for the Group in respect of whether they are achieving the defined targets, as well as in respect of reporting. Transactions and actions that are in conflict with the Group risk strategy require the consent of the Board of Management of BayernLB.

Risk inventory and significant risk types

Regular risk inventories are carried out in order to identify significant risks and to review the appropriateness of the risk management system in relation to the degree of risk. The assessment of materiality is based, for instance, on the forecast risk capital requirement.

Counterparty default risks, market price risks, participation and operational risks, as well as liquidity, reputation and business risks, have all been identified as significant risk types. In addition, there are significant sub-types of risks that are integrated in the risk management processes of the risk types.

The analysis and measurement of the individually identified types of risk and their management and monitoring are set out in the related bank policies, the risk-bearing capacity manual and the various team manuals.

Counterparty default risks comprise the risk that a contractual partner (borrower, issuer or counterparty) cannot, or cannot completely, meet their contractual obligations, and the risk of loss and changes in value arising from collateral provided. Counterparty default risks also include the country risk resulting from country-specific factors (such as in the form of political or economic crises or currency restrictions). Furthermore, risks due to an uneven distribution of exposure in the concentration risk are recorded as part of the counterparty default risk. These include concentrations on individual borrowers (cluster risks), portfolios (client groups), countries and collateral concentrations due to the type of collateral provided.

The DKB Group is exposed to counterparty default risks in the traditional client business (credit risk) and in the form of issuer and counterparty risks, as well as those arising from internal Group receivables. Country risks arise mainly in the securities portfolio in the case of foreign issuers. These are not significant given the portfolio as a whole. The bank is exposed to counterparty risks in the form of replacement risks only to a negligible extent, mainly for hedging interest rate risks and in secured money market trading. The bank does not permit products such as securitisations in the form of ABS and MBS structures or the purchase of securitised receivables. The bank is not exposed to such risks.

Investment risks comprise counterparty default risks from investment positions. These relate to potential losses in value due to the provision of equity or equity-type financing (such as silent partnerships) from liability risks, as well as losses in value from payment obligations or profit transfer agreements. Loans to participating interests form an element of the counterparty default risk.

Market price risks are defined as potential losses from changes in the market prices of securities, money market and foreign exchange products and derivatives, as well as a change in interest rates and foreign exchange rates. The bank is exposed to market price risks in the form of interest rate risks in the banking book and securities portfolio. Currency risks are not actively entered into and mainly result from an extraordinary investment outside the eurozone, which was carried out as part of strategic considerations. There are no commodity and securitisation risks. Option risks are primarily a result of implicit options arising from termination rights in the lending business pursuant to Section 489 of the German Civil Code (Bürgerliches Gesetzbuch; BGB) and interest rate capping agreements that are taken into account when measuring the interest rate risk in the banking book. Market liquidity risk and net interest income risk (NIIR) are also market price risks. Market liquidity risk is defined as the risk that risk positions can only be closed at financially less favourable conditions than expected. Net interest income risk (NIIR) is the risk of a reduction in net interest income in the banking book.

Liquidity risks comprise the risk of present or future payment obligations not being fully met or not being met in time. In addition, higher costs for maintaining solvency are allocated to the liquidity management risk. In the context of risk-bearing capacity, rises in liquidity cost risks are considered together with reputation risks.

Reputation risk refers to the risk of a financial loss or profits foregone due to an (imminent) loss or deterioration in the bank's reputation among its clients, employees, business partners, institutions/shareholders or the (broader) public due to relevant reports in the public media, including social media (Facebook, Twitter, etc.), for example due to personal negative actions by bank representatives internally or externally. In this respect, reputation is the public standing of a bank in respect of its competence, integrity and trustworthiness as perceived by stakeholder groups. Reputation risks exist, in particular, in the context of unexpected outflows of client deposits, as well as the consequence of a massive loss of trust in the bank's creditworthiness or IT security with impacts on liquidity holdings and refinancing costs.

Operational risks, closely modelled on the banking regulatory requirements of CRR, are defined as the risk of losses caused by human conduct, process and control weaknesses, technological failures, disasters or external influences. Material operational risks in the DKB Group include information security, legal and compliance, fraud, outsourcing, model, process and project risks.

Business risks comprise the risk of economic losses induced by unexpected changes in the economic, legal, regulatory, political, technological, social or ecological business environment that were not already explicitly or implicitly regarded as other risk types included in the risk-bearing capacity statement. Business risks also include strategic risks.

Inclusion of subsidiaries

All of DKB AG's subsidiaries are part of the risk strategy and are taken into account in the strategic requirements and risk management system in accordance with their importance for the overall risk profile. An annual investment inventory is carried out to determine the risk potential of direct subsidiaries.

Risk-bearing capacity and stress testing

Risk-bearing capacity

The risk-bearing capacity analysis within the framework of the internal capital adequacy assessment process (ICAAP) is an integral part of overall bank management. There is sufficient risk-bearing capacity if the existing risk capital is sufficient to cover future risks from the underlying transactions. By actively managing the economic capital adequacy based on the internal risk measurement methods, the bank ensures that the risks it is exposed to, or the planned risks, are at all times in line with the bank's capital resources.

The DKB Group has selected a liquidation approach as the key management approach in the context of the ICAAP. This is supplemented by a going-concern perspective.

The utilisation of the risk capital requirement limit in total and for each risk type is monitored by Risk Controlling and reported to the Board of Management in the monthly risk report. If the limits are exceeded, the measures set out in the escalation model are initiated. In addition, DKB AG provides the responsible central units of BayernLB with the data required to represent the Group risks and risk-bearing capacity of the BayernLB Group on a monthly basis.

Risk coverage capital

The calculation of the risk coverage capital is based on a profit and loss/balance-sheet-oriented approach. Qualitatively, the risk coverage capital is suitable for absorbing any losses that arise and, in accordance with the liquidation approach, is calculated by adding equity and subordinate capital plus the net profit for the year. In the event of the bank's liquidation, items not available (such as intangible assets) are deducted from the risk coverage capital.

Risk capital requirement

Under ICAAP, the risk capital requirements for counterparty default, market price, investment, operational, increase in liquidity cost and business risks are determined and compared with the respective limits. The DKB Group uses regulatory procedures for participation risks. The supervisory provisions of Article 155 CRR are applied. The procedures for quantifying the other types of risk are based on a value-at-risk approach or, in determining the increase in liquidity cost risk, on a scenario-based approach. When using the value-at-risk approach, a confidence level of 99.95% and a holding period of one year are assumed.

The individual risk capital requirements for the risk types are aggregated to form the overall risk capital requirement uniformly throughout the Group in accordance with BayernLB's requirements without taking into account diversification effects between the risk types.

Development of the risk situation

The following risk profile arises as of the current reporting date:

EUR millions	31.12.2018	31.12.2017
Counterparty default risks	548	375
of which client receivables	526	350
of which Group-internal receivables from BayernLB	22	25
Market price risks	318	320
Investment risks	8	7
Operational risks	138	109
Rise in the cost of liquidity risks	103	98
Business risks	2	9
Risk capital requirement (aggregated)	**1,117**	**918**
Available cover funds	**4,356**	**3,846**
of which allocated as limits	1,775	1,755
Utilisation of the available cover funds	26%	24%
Utilisation of the limit	63%	52%

Compared to the previous year, the aggregated risk capital requirement increased by EUR 199 million to EUR 1,117 million. In the same period, the available cover assets increased by EUR 510 million to EUR 4,356 million.

The increase in aggregate risk capital requirements is mainly attributable to the further development of the procedure for quantifying credit risks and an increase in operational risks from the regular updating of the OpRisk self-assessment.

The increase in available risk cover reflects the positive development of the Group result. On the other hand, the change in credit risk measurement led to a relief of the available cover funds.

Of the available coverage capital, EUR 1,775 million are allocated as limits to cover business operations. The remainder is available to cover the standard "severe economic downturn" scenario. As of the reporting date, 63% of the limit (31 December 2017: 52%) was utilised. Utilisation continues to be at a comfortable level. The risk-bearing capacity was assured at all times in the reporting period.

The considerations in the liquidation approach are supplemented with a going-concern perspective. In the going-concern perspective, the capital available in the short term must be sufficient to cover the risk capital requirement, so that business operations can be continued in compliance with the regulatory minimum capital requirements. The risk capital taken into account is based on the free hard core capital. In a year-on-year comparison, the utilisation of the going-concern capital fell to 43% as of 31 December 2018 (31 December 2017: 55%). The decline in capacity utilisation is due in particular to the capital measures implemented.

Stress testing

In stress testing and scenario analyses, the DKB Group analyses the impact of exceptional but plausible events on all relevant portfolios. Stress scenarios are employed here that take into account the impact on the capital situation in addition to observing the economic impact.

The standard scenario "severe economic downturn" is based on a liquidation perspective and affects all types of risk. It examines whether the risk-bearing capacity also exists in the event of a severe recession. The risk capital requirement for this scenario increased by EUR 0.7 billion year-on-year to EUR 2.8 billion, in particular due to the increase in market price risks from long-term new business and the further development of the method for quantifying credit risks. This is fully covered by the cover funds of EUR 4.4 billion available as at the reporting date.

In addition to the scenario of a severe economic downturn, the DKB Group has implemented bank-related stress tests for specific risk types. The bank-specific scenarios include, for example, loss of market share in major business areas, singular sector crises due to changes in general conditions as a result of exogenous shocks, the effects of interest rate shocks, changes in credit spreads and negative developments in the investment portfolio.

Furthermore, sensitivity analyses supplement these considerations by increasing transparency with respect to the impacts of changes in individual risk factors, such as the probability of default.

For all stress scenarios, the responsibility for quantification and commentary lies with Risk Controlling. The results of the stress tests are communicated to the Board of Management in the monthly risk report. In addition, the results of the bank-specific stress scenarios are set out quarterly in the credit risk report. For the monthly and quarterly reports, case-specific stress tests are carried out in the event of acute market disturbances, for example, and the results and any recommendations for action are communicated to the Board of Management by means of an ad-hoc report.

The adequacy of the stress scenarios is reviewed once a year and the stress scenarios are updated as appropriate.

In addition, the DKB Group implemented inverse stress tests in accordance with MaRisk. In a deviation from the conventional stress tests, retrograde scenarios are identified that may put the survival of the DKB Group at risk. As non-compliance with the regulatory minimum capital requirements may lead to the regulatory authorities ordering business operations to be discontinued, a loss is regarded as putting the bank's survival at risk if the loss exceeds the available going-concern capital. Inverse stress tests are carried out for individual risk types as well as across risk types. The quantification as well as the presentation of the stress test results and their analysis take place at least once per year.

Counterparty default risks

Risk management and monitoring

Strategies and policies

The credit risk strategy is determined taking into account the risk profile and risk appetite. It contains the planning and distribution of risk capital and requirements for new business consistent with the business strategy. The requirements for limiting credit risks are derived on this basis.

The lending business is governed by the lending policy, which sets out the general philosophy for the credit risk as well as the methods for actively controlling the risk. The lending policy defines important organisational requirements, competencies and responsibilities as well as principles for credit risk management, and applies to all lending business.

Management of the counterparty default risk is a joint task for the commercial banking and back office units. In this process, the Credit Risk and Portfolio Management division takes over the back office functions and is responsible for the risk analysis, assessment and control with respect to the commitment relevant to risk. Furthermore, it bears responsibility for the ongoing creditworthiness and transactions analysis, and gives the back office the authority to approve loans. The credit authorisation regulation governs the competencies of the various authorised persons depending on the credit volume to be approved, the client group and the rating category.

The respective team manuals or lending guidelines contain matrices per client group that set out the underlying conditions for new client acquisition, new business and renewals from a sales and risk point of view. For the portfolios to be wound down, the DKB Group has set out framework conditions in the form of an overall reduction strategy, as well as reduction strategies for individual clients.

At the issuer level, the DKB Group uses a loan authorisation and credit approval process similar to the counterparty default risks of the lending business and a limit system to ensure that the "no transaction without a limit" principle is adhered to even for trading activities. For this purpose, the DKB Group determines the maximum amount of the limit, depending on the creditworthiness of the respective issuer, and allocates these to product-specific sub-limits for debtor risks, issuer risks, replacement risks and settlement risks. Risk Controlling monitors compliance with the limits on a daily basis and includes this in the daily and monthly report. If the limits are exceeded, the escalation process in place is activated.

The DKB Group reports on the development of the counterparty default risks in its monthly risk report and the quarterly credit risk report.

Risk concentration and sub-portfolio limits

In order to monitor and limit risk concentrations, the DKB Group has implemented various limit systems. The limits are monitored regularly by Risk Controlling. If limits are exceeded, recommendations for action and measures in accordance with the approved escalation model are implemented. Utilisation of the limits is reported to the Board of Management and the Supervisory Board of DKB AG in the monthly risk report. In addition, the limits are presented in detail in the credit risk limit report on a monthly basis. Unless otherwise agreed, all limits, including any limit transfers that may be required, require a resolution by DKB's Board of Management.

The limits relate to the gross exposure, i.e. without offsetting collateral provided.

In order to limit the industry risks in the BayernLB Group, Group-wide industry limits are set out for selected industries. The DKB Group participates in this process in accordance with its multi-year planning and risk profile. Sub-limits are granted to the DKB Group in this process. In addition, specific portfolio guidelines are set that are also subject to monitoring.

The DKB Group also sets client group limits for the respective client groups in the areas of infrastructure, corporate clients, retail clients, treasury and non-core business. These limits are derived from the multi-year plan and take the Group-wide industry limits into account.

For business with the public sector, limits are in place for the German federal states and the federal government at the Group level. The DKB Group is also granted sub-limits from these.

Due to the clear focus on domestic borrowers and foreign issuers from investment-grade countries, country risks are not substantial and are not considered in the economic risk measurement due to their marginal nature.

The DKB Group is involved in the BayernLB Group's limit allocation process to manage country risks in the securities portfolio and receives sub-limits accordingly. The utilisation of the sub-limits granted is monitored on a daily basis.

In addition, a process to monitor collateral concentrations is in place. The relevant collateral concentrations are identified at least once per year and subjected to a stress test quarterly in order to quantify the potential loss. This ensures that concentrations from homogeneously reacting collateral are identified and can be limited taking into account the risk-bearing capacity.

Risk concentration and borrower limits

In order to limit borrower-related risk concentrations, the DKB Group is included in the Group-wide limits for counterparty risk concentrations in accordance with the corresponding guidelines of the BayernLB Group.

The DKB Group notifies BayernLB of new business and increases that exceed or extend the gross limit of EUR 50 million for a group of related customers pursuant to Section 4 (1) no. 39 CRR in order to be able to identify risk concentrations in the Group at an early stage. For commitments with a gross limit of at least EUR 400 million at the level of the BayernLB Group, the limits and sub-limits are allocated by BayernLB. The sub-limit amounts are cross-checked on a monthly basis with BayernLB. The utilisation is checked daily. If the limits are exceeded, the existing escalation processes are used.

In addition, the DKB Group has determined a bank-specific cluster ceiling based on the gross customer limit for groups of related customers in the amount of 50% of the current large loan threshold.

Compliance with cluster ceilings is monitored in the operating business on a continuous basis as part of the credit approval process. For new loan approvals that exceed the internal cluster ceiling, a strategy must be worked out for the commitment as part of the preparation of the loan documents. The Board of Management approves the commitment. Risk Controlling reports on groups of related clients that exceed the cluster ceiling to the Board on a quarterly basis.

Project financing for the “environmental technology” client group is excluded from the internal cluster management. On the basis of the gross client limit, this group of related clients has an exposure ceiling of EUR 350 million. In justified exceptional cases, credit approvals above this limit may only be granted with the approval of the Board of Management and the Risk Committee in accordance with the credit authorisation regulation. Limits are monitored quarterly by Risk Controlling as part of the credit risk report.

Risk classification procedure

In order to assess the creditworthiness of clients and thereby to determine the probability of default, the DKB Group mainly makes use of the risk classification procedure offered by S Rating und Risikosysteme GmbH (SR) as part of its credit risk management. In addition, procedures by Rating Service Unit GmbH & Co. KG (RSU) are used. The majority of the rating systems used are permitted for calculating the regulatory capital requirements in the context of the IRB Group notification of BayernLB.

All rating procedures are subject to ongoing maintenance and validation, which ensures their adequacy for the correct determination of default probabilities in the respective client or financing segments. Maintenance and validation includes both quantitative and qualitative analyses. The rating factors, including the selectivity and calibration of the methods, the data quality and the design of the models are checked using statistical and qualitative analyses as well as user experience from ongoing use.

The Credit Risk Methodology unit is responsible for maintaining the quality of the systems, the implementation and quality assurance of processes and the ongoing maintenance and implementation of recalibrations. The validation of the processes using the above-mentioned analyses is carried out by the Model Validation department. Both departments are part of the Risk Controlling division.

The results of the risk classification procedure are presented in a master scale where the rating classes 16 to 18 comprise the default classes.

Risk measurement

Value at risk at the portfolio level is determined using a simulative credit portfolio model that quantifies migration and default risks at a confidence level of 99.95% over a one-year period. Dependencies between the borrowers in the portfolio are quantified using an industry-specific sector model. Finally, uncertainties are also taken into account when determining loss ratios. The risk contributions of the individual business partners to the value at risk of the overall portfolio are determined for the purposes of risk analysis.

Besides the probability of default, the counterparty default risk is mainly influenced by the loan amount outstanding at the time of default as well as the forecast loss ratio. The DKB Group uses parameters it has estimated itself for both input variables. Information provided by RSU is used for banks, countries and local authorities.

The portfolio model and the critical parameters are validated at least once per year.

Management of problematic commitments

The DKB Group links the risk management of impending or actual problematic commitments to the rating and the rating-independent early risk identification process. Loan exposures whose deteriorated creditworthiness and/or liquidity require special monitoring are divided into exposures for intensive support (rating 10–12) and problem loan support (rating 13–18) or transferred to these forms of support by exercising a drawing right. The client service units receive a monthly summary of the relevant commitments from the Kredit Consult division, which is responsible for the methodology in accordance with MaRisk for the above-mentioned forms of support.

Rating class	Form of support	Independent responsible unit (normal case)
1–9	Normal support	
10–12	Intensive support	Credit risk and portfolio management (CR)
13–15	Problem loan monitoring	
16–18	Problem loan monitoring	Kredit Consult (KC)

The responsibility for supporting commitments requiring intensive support remains within the customer service units. In the context of the requirements and structuring leeway set out by the Kredit Consult division, they prepare a commitment strategy and implement it using commitment-specific measures. The CR division then generally provides the second approval required in accordance with MaRisk (back office). The CR division is granted a drawing right for exposures with a credit rating of 1–9 (drawing right intensive support), the exercise of which involves shifting the competences of the market to those of the 10–12 credit rating category and the market agreeing individual measures, reporting and deadlines with the CR division.

In accordance with MaRisk, the Kredit Consult division is also responsible for all decisions relating to problem loan exposures (rating class 13 and above) and for defining strategies and scope for action. The Kredit Consult division is granted a drawing right (drawing right problem loan support) irrespective of the rating.

For non-core business, the Kredit Consult division is generally the authorised division.

The DKB Group has an impairment policy for dealing with impairments (EWB policy guideline). This policy governs the basic principles for handling impending or actually problematic loans, the creation of risk provisions and reporting. Required loan loss provisions, provisions or their utilisation or reversal are determined regularly by the Kredit Consult division and approved in accordance with the competencies set out in DKB AG's credit authorisation regulation. The required bookings are then made.

Creation of credit risk provisions

The risk provisions of the DKB Group are based on the provisions of IFRS 9. The impairment model of IFRS 9 provides for the following levels that reflect the development of the credit quality of a financial asset:

- Level 1: If a financial instrument is acquired and there is no significant increase in credit risk or no impaired creditworthiness ("credit impaired"), the valuation allowances are measured at the amount of the expected twelve-month credit loss.

- Level 2: In the event of a significant increase in credit risk since addition, but in the absence of an impaired credit rating, the valuation allowances are measured at the amount of the credit losses expected over the term.

- Level 3/POCI: In the case of a financial asset whose creditworthiness is impaired at the balance sheet date or whose creditworthiness was already impaired at the time of acquisition (POCI), the valuation allowances are measured in the amount of the expected credit losses over the term.

The impairment amount for Level 1 and Level 2 receivables and for Level 3 non-significant receivables (individual loan commitments with a maximum gross exposure of EUR 750 thousand) is determined using parameter-based models. For significant Level 3 receivables (individual loan commitments with a gross exposure of over EUR 750 thousand), risk provisions are determined on the basis of expert estimates of expected recoveries (discounted cash flow method).

Collateral management

Another key instrument to minimise risk is the acceptance and continuous valuation of generally accepted collateral. In line with its client structure, the DKB Group's collateral portfolio consists primarily of material collateral provided by retail clients, housing associations and housing industry investors, local authority guarantees and suretyships, as well as assignments of receivables and assignments by way of security of the "environmental technology" client group. Other relevant collateral is of minor importance.

The DKB Group regulates the competencies and responsibilities for processing and measuring collateral in its collateral policy – based on the Group standard provided by BayernLB. The regulations contained in the collateral policy form the basis for availing of regulatory relief in accordance with KWG and CRR, and taking into account the collateral in accordance with economic interests.

Determining the market and loan values for mortgage collateral is crucial for collateral valuation. The DKB Group avails itself of the expertise of LB ImmoWert, a subsidiary of BayernLB. The determination of the loan values is carried out independently of the market by Operations & Banking Services. The decentralised civil engineers are also allocated to this division. The simplification options offered by Section 24 BelWertV (Regulation on the Determination of the Mortgage Lending Value) are utilised.

In all commitments, the collateral value for making use of the relief provided by KWG and CRR is determined on the basis of the loan values. For economic (internal) control, the liquidation values are determined on the basis of market values. The appropriateness of the valuations is regularly reviewed when determining the loan value. In addition, exposures are continuously monitored, for example as part of disbursement controls, collateral processing or annual exposure monitoring. The entire process is subject to review by the Audit department.

The Board of Management is informed of the amount of collateral in the credit risk report prepared by Risk Controlling.

Early warning

The principles of risk management practised in the DKB Group and the principles of the risk early warning procedure for identifying borrowers or exposures with (emerging) increased risks are laid down in the risk early warning guidelines. The aim is to be able to provide risk-adequate support and initiate measures to minimise risks at an early stage.

These guidelines supplement the Credit Policy guidelines, the Risk Strategy guidelines, the EWB Policy guidelines and the principles of the DKB Group's lending business. They are supplemented by regulations on risk classification procedures and early risk identification and risk monitoring.

The scope of application of this strategy extends to loans within the meaning of Section 19 (1) KWG. In this respect, it is limited to those aspects that are relevant with regard to the management of credit risks.

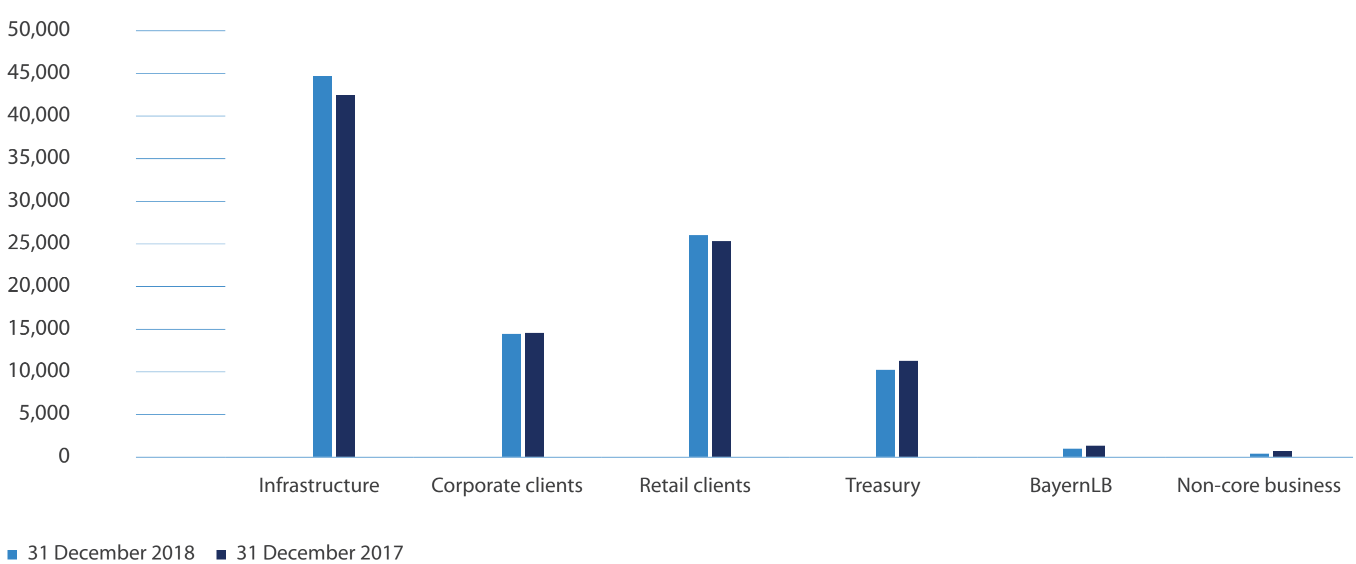
Development of the risk situation

The development of the risk situation is presented based on the business fields of the DKB Group. The Treasury and BayernLB business fields form part of the financial markets segment.

Gross exposure increased by EUR 1.2 billion to EUR 97.0 billion in the reporting year (31 December 2017: EUR 95.8 billion). Broken down by the DKB Group's business fields, the following picture emerges:

Gross exposure

EUR millions



The gross exposure is offset by collateral of EUR 37.0 billion (31 December 2017: EUR 37.1 billion), resulting in a net exposure of EUR 60.0 billion (31 December 2017: EUR 58.7 billion).

The increase in gross exposure results primarily from growth in client business in the Infrastructure and Retail Clients segments in line with strategy. At the same time, the liquidity portfolio was decreased and the reduction of the non-core business was continued.

The growth in gross exposure in the Infrastructure business segment to EUR 44.9 billion (31 December 2017: EUR 42.7 billion) was primarily due to business with municipal clients and in the housing client group.

At EUR 14.5 billion, gross exposure in the Corporate Clients business segment was slightly below the previous year's level (31 December 2017: EUR 14.7 billion). The slight decline is dominated above all by the tourism client group. The Corporate Clients segment includes business with clients in the Food and Agriculture sectors. In the reporting year, drought-related crop failures at individual clients in this client group led to lower yields. The corresponding exposures are closely monitored. Overall, however, the consequences of the drought did not have any significant impact on the credit quality of the food and agriculture client group.

In the retail clients business, gross exposure increased by EUR 0.7 billion to EUR 26.1 billion compared to the previous year. The increase is due to further growth in the DKB Cash product package and in private loans.

The Group's internal gross exposure to BayernLB decreased in the year under review due to the repayment of all promissory note loans. New time deposits granted to BayernLB have a partially compensatory effect. As at 31 December 2018, receivables from BayernLB totalled EUR 0.9 billion (31 December 2017: EUR 1.2 billion).

The Treasury division mainly comprises DKB AG's securities portfolio and business with institutional clients. The decline in the gross exposure by EUR 1.1 billion to EUR 10.2 billion reflects in particular the reduction in the liquidity surplus.

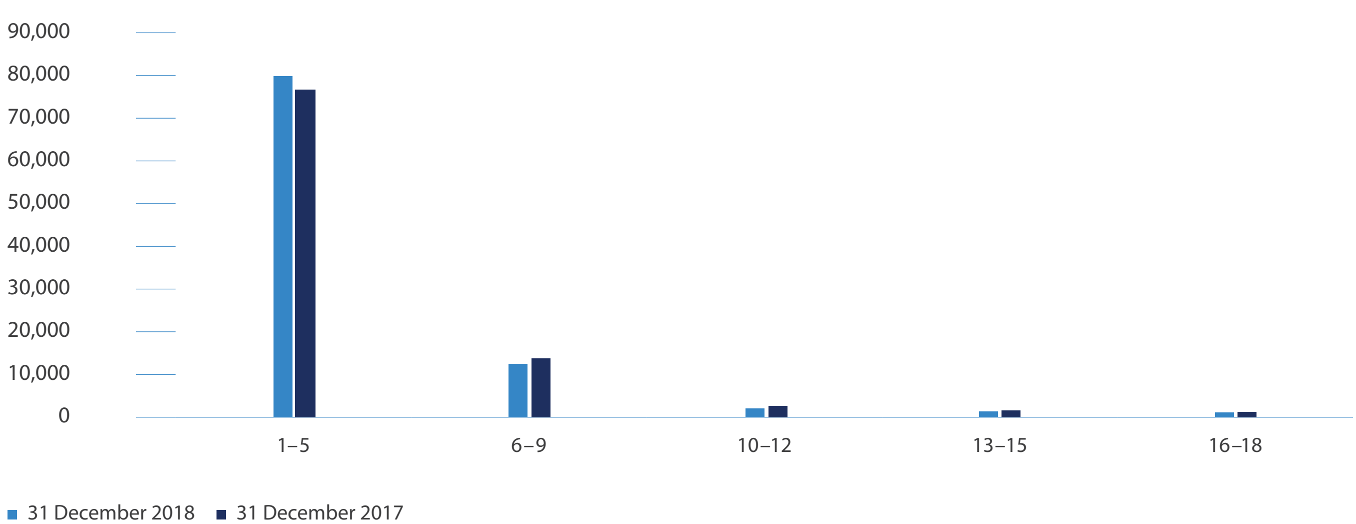
In addition to bonds issued by domestic and eurozone governments with first-class credit ratings, the securities portfolio primarily comprises bonds issued by supranational issuers and development banks.

Open securities positions in the peripheral countries of the eurozone have been significantly reduced since 2008 and, as of 31 December 2018, still amounted to a nominal EUR 88 million. These positions exclusively comprise Italian government bonds. The share in relation to the overall holdings continues to be low.

The changes in the portfolio by rating category were as follows:

Gross exposure by rating class

EUR millions



The quality of the portfolio improved noticeably further during the course of the year. The investment-grade share, i.e. the share in positions with ratings in classes 1 to 5, increased to 83% (31 December 2017: 81%).

The average probability of default in the portfolio reduced to 0.48% (31 December 2017: 0.55%). This figure corresponds to an unchanged rating class of 6. The proportion of defaulted exposures (rating classes 16–18) remained virtually constant compared with the previous year and stood at 0.9% as at 31 December 2018.

The DKB Group does not permit products such as securitisations in the form of ABS and MBS structures or the purchase of securitised receivables. The DKB Group is not exposed to such risks.

As at 31 December 2018, 29 groups of related clients pursuant to Article 4 (1) no. 39 CRR were identified as cluster commitments.

As at 31 December 2018, two clients in the environmental technology customer group exceeded the maximum exposure limit of EUR 350 million.

Investment risks

In order to supplement and round off the products and services for the client groups defined in accordance with the bank's strategy, as well as to provide internal services for the DKB Group, DKB AG in principle holds strategic participations with the objective of optimising vertical integration, expanding the product and service areas of DKB AG, developing existing sources of revenue and capturing new sources of revenue. The investment strategy governs the principles for entering into equity risks and risks from equity-like financing.

Here, DKB AG aims to generate appropriate and sustainable profitability according to risk for all participations (except for restructuring companies).

Activities related to dealing with the legacy business of construction management companies and the comprehensive winding up of the remaining business activities still in the companies is consistently carried out by the restructuring companies. The reduction is being driven forward with the objective of avoiding asset losses.

The Legal and Management Staff division as well as the Non-Financial Risk division are responsible for the continuous monitoring and control of shareholder risks. In contrast to the monitoring of participation risks, the Credit Risk and Portfolio Management division and the Risk Controlling division are responsible for monitoring credit risks arising from loans granted to subsidiaries.

The portfolio management of the entire shareholding and participation portfolio is carried out by the Board of Management.

In its strategic participations, DKB AG strives to set the strategic direction in line with the current business strategy and multi-year planning as well as the risk strategy of the DKB Group. This takes place by acquiring majority shareholdings. Furthermore, the business and risk policies of participation companies may be influenced by relevant measures (articles of association, rules of procedure, membership of supervisory committees, etc.) or by concluding relevant corporate agreements.

The impacts that participation risks have on the risk-bearing capacity are detailed in the monthly reports by Risk Controlling. In addition, the Legal and Management Staff division reports regularly to the Board of Management. It prepares a quarterly report on the participations. In addition, the Supervisory Board is given an annual participation report for its information. The Supervisory Board also receives information on the current participation topics at its regular meetings. The Board of Management is promptly informed of any matters relating to the participations.

For participation portfolios, the risk capital requirement is determined using the risk weighting method based on the probability of default pursuant to Article 155 CRR. Here, the probability of default is derived from the internal ratings of the individual participations. At a confidence level of 99.95%, 90% is used as the LGD in accordance with the regulatory requirements.

The control and monitoring systems in place ensure that DKB AG is continuously informed of the financial performance and strategic alignment of the participation companies.

Market price risks

Risk management and monitoring

At the DKB Group, market price risks arise exclusively from the investment book. The market price risk comprises the following sub-risks: interest rate risks, credit spread risks, equity risks, volatility and foreign currency risks and market liquidity risks. Due to the takeover of Visa Europe by Visa Inc., DKB AG holds an interest in US dollars. In addition, the rule applies that no open foreign currency positions are held and that foreign currency risks entered into in client business are concluded by means of counter-trade transactions. Implicit options from termination rights and interest limitation agreements are also taken into account when measuring the interest rate risk of the banking book.

The market price risks are monitored regularly by Risk Controlling, independently of trading. Besides the regulatory requirements for risk measurement and risk control, this division ensures the daily reporting to the responsible heads of department and the weekly and monthly information for the Board of Management and is responsible for the market conformity check.

Treasury is responsible for managing the interest rate risks from the interest-bearing business in accordance with the specifications of the Board of Management as well as for the development of interest rate strategies and the conclusion of interest rate derivatives. The Liquidity Management unit in the Treasury division is responsible for managing the positions of the bank's own investments and monitoring the performance of the individual funds.

The DKB Group uses interest rate swaps for hedging and reducing interest rate risks. In order to reduce fluctuations in value arising from changes to fair values in the income statement, hedging relationships are established between interest rate swaps concluded to control the interest rate risks and receivables from clients (hedge accounting). The Finances division is responsible for the continuous supervision of the effectiveness of the hedging relationships.

In order to monitor the market price risks, the DKB Group has implemented a limit system based on value at risk (VaR) consistent with the risk-bearing capacity calculation. The VaR for market price risks is calculated on the basis of a historical simulation with a holding period of one day and a confidence level of 99%. To determine the economic risk capital requirement, this figure is then scaled to a confidence level of 99.95% and a uniform holding period of 250 days. All the positions bearing market price risks are included in the determination of the VaR. Interest rate, credit spread, share and foreign currency risks are taken into account in the calculation. In addition, for custody account A (securities business), a separate, correlated VaR is determined as a portion of the overall portfolio that takes into account the interest rate, credit spread and share risks in the securities portfolio. There are no foreign currency risks in the securities portfolio.

In addition to the present value consideration of the interest rate risk, the net interest income risk (NIIR) is used to determine an earnings perspective. It takes into account the change in net interest income under various interest rate scenarios and on the basis of defined business developments over an observation period of the next twelve months.

The market risk measuring procedures are reviewed regularly in respect of reliability and quality. Back testing is carried out to compare the risk forecast with the actual result.

In addition to the value at risk for market price risks, market-risk-specific stress tests are determined. Stress testing is carried out in the form of sensitivity or scenario analyses. Historical and hypothetical scenarios are considered. All the relevant risk factors (interest rate, credit spread, volatility, foreign currency and share risks) are included in the stress test analyses. In an additional analysis, a drop in prices is simulated for all positions subject to a share risk. In credit spread scenarios, credit spreads are widened. An extensive set of stress tests exists for the interest rate risk factor, which also reflects the dependencies between interest rate and volatility risks.

A key control parameter for the stress testing programme carried out by the DKB Group is the interest rate risk coefficient in accordance with BaFin (Federal Financial Supervisory Authority) circular 9/2018. In these regulatory scenarios of an interest rate shift of +/– 200 basis points (bp), the maximum cash value loss in the investment book is limited to 20% of the regulatory capital of DKB AG.

Risk Controlling monitors adherence to the limits on a daily (securities), weekly (banking book) or weekly/monthly (stress scenarios) basis and includes this in its regular reports. If limits are exceeded or about to be exceeded, relevant escalation measures are initiated.

In daily reporting, the division heads of Treasury and Risk Controlling are informed about the VaR for trading transactions, the performance of custody account A and compliance with the limit for risk capital requirements.

As part of the weekly or monthly reporting to the Board of Management, the results of the stress scenarios and the forecast net interest income for the next twelve months (NII) are reported monthly in addition to the presentation of the risk-bearing capacity. The results of scenarios that are regarded as relevant to risk for the DKB Group, taking into account the current interest rate situation as of the reporting date, are noted and commented on in the risk report.

All stress tests are validated and the model maintained once per year or as required.

Change in market price risks at the overall banking level

The interest rate risk in the event of a sudden and unexpected change in interest rates (of +/- 200 basis points as per BaFin circular 9/2018) amounted to EUR 392 million as at the reporting date (scenario of a sudden rise in interest rates of 200 basis points). In relation to the equity in accordance with CRR, this is equivalent to a share of 10.7% (31 December 2017: 8.8%). The relevant net present value loss is the greater of the two values resulting from an assumed sudden rise (+ 200 bp) or fall (– 200 bp) in interest rates. Compared to the previous year, the relevant net present value loss rose by almost EUR 100 million, in particular due to new loan business. The lowest relevant cash value loss was EUR 191 million in May and the highest EUR 522 million in December. With one exception (end of May), the relevant loss in present value was due to the scenario of a sudden and unexpected rise in interest rates of +200 bp.

The risk capital requirement for the total market price risk of EUR 318 million has hardly changed compared with 31 December 2017 (EUR 319 million). The risk-increasing effect of the long-term new loans business and the increase in liquidity holdings due to fixed-interest securities was more than compensated for by the conclusion of payer swaps, the assumption of subordinate capital and the inflow of client deposits. The highest risk capital requirement of EUR 429 million was reached in December 2018 and the lowest value of EUR 181 million in May 2018.

Development of market price risks from the securities business

In addition to the risk factors at the level of the bank as a whole, there is a sub-risk limit for the securities portfolio that is measured and monitored on a correlated basis. Due to the high proportion of fixed-interest securities from public issuers in Germany, the securities portfolio is dominated by interest rate risks. The bonds are held for the purpose of liquidity risk management. In addition, DKB AG invests in shares via the purchase of fund products.

The DKB Group's nominal bond portfolio (excluding own issues) rose slightly to EUR 6.1 billion in financial year 2018 (31 December 2017: EUR 5.7 billion). The bond portfolio primarily relates to liquidity holdings required by the regulator, which ensures that securities that are eligible for rediscount with the central bank and securities that are quickly realisable on private markets immediately and without value losses are available at all times.

Compared to 31 December 2017, the risk capital requirement for custody account A increased from EUR 242 million to EUR 251 million as of 31 December 2018.

Risk concentrations are limited and controlled in accordance with the issuer, similar to the applicable cluster regulation, and in accordance with the portfolio for regional concentrations. The DKB Group has no country risks worth mentioning.

Liquidity risks

Risk management and monitoring

The Board of Management bears the overall responsibility for measuring and controlling liquidity risks. It is informed of the liquidity situation at its weekly meetings of the Board of Management and when defined events occur, and also when the need arises, and uses this information to derive measures for fine-tuning liquidity risks or commissions the responsible divisions to implement them. The Asset Liability Committee (ALCO) consists of the Board of Management and the Heads of Treasury and Risk Controlling, and monitors the strategic liquidity situation based on the risk reports and liquidity status presented, and elaborates medium- and long-term control measures. In addition, an emergency committee has been formed in which, in addition to ALCO, the heads of the Corporate Development, Legal and Management Staff divisions are represented. It meets in the case of a liquidity emergency, decides measures to deal with the emergency and monitors their execution.

To ensure uniform management throughout the Group, BayernLB has provided the DKB Group with a substantive and organisational framework for dealing with liquidity risks in the form of guidelines. These guidelines in relation to controlling the liquidity risk have been incorporated into the bank's regulations via the sub-risk strategy for liquidity risks, as well as via the Liquidity Policy, the Liquidity Contingency Plan and the Funding Policy. Here, the sub-risk strategy governs the substantive and organisational framework for handling the existing liquidity risks. These framework conditions are then specified and described in detail in the Liquidity Policy. The organisational framework for the event of a liquidity crisis or liquidity emergency is set out in the liquidity contingency plan. The Funding Policy governs the refinancing principles and processes.

The DKB Group has set out the nature and scope of the management system for liquidity risks in the Liquidity Policy. Besides the organisational structure and division of responsibilities, it also governs the risk measurement, limits, reporting and liquidity management within the DKB Group. This includes, on the one hand, the normative perspective with the regulatory reports (including the LCR and the asset encumbrance report) and, on the other, the economic perspective with the liquidity maturity statement and the intraday liquidity risk. In addition to presenting the risk management system, the Liquidity Policy defines the term "contingency". The liquidity contingency is described in more detail in the Liquidity Contingency Plan, in which, for instance, the composition of the emergency committee, including function and competencies, as well as the procedure and communication channels in an emergency, are defined and possible courses of action are prepared.

The Treasury division is responsible for managing short-term liquidity, taking into account the regulatory requirements and the strategic medium- and long-term funding. In addition, Treasury is responsible for managing the interest rate risk from the interest-bearing business as well as the development of interest rate strategies and the conclusion of interest rate derivatives as directed by the Board of Management. Furthermore, this division manages the intraday liquidity and prepares the refinancing status at the close of trading.

Risk Controlling carries out independent risk measurement, monitoring and reporting, and escalates any limit breaches.

Liquidity overviews are prepared daily for the purposes of managing the liquidity situation in the short term. The Board of Management decides on the short-term and strategic orientation of liquidity management and key individual requirements, for example on the basis of an annual funding plan. The liquidity overviews are also used at least once a month as a basis for analyses of the assets side, the diversification of the liabilities side and the development of the liquidity coverage potential.

The liquidity situation is monitored at the economic and regulatory level. The DKB Group has implemented various limit systems that are linked to the different escalation levels for this purpose. The escalation models ensure that undesired changes in the liquidity position of the DKB Group can be countered early on. In addition, intraday liquidity is monitored in accordance with the BCBS-248 key figures.

The basis of the economic liquidity assessment is the comparison of the netted future incoming and outgoing funds in the capital maturity statement and the liquidity coverage potential. Both components together form the liquidity progress review. The liquidity coverage potential describes the ability of the DKB Group to procure liquid funds at the earliest point in time. Core elements are liquidation proceeds from securities, central bank money potential, cover register potential and irrevocable loan commitments received. The free cover register potential is taken into account via the loans in the cover pool and their capacity to be used as central bank money facilities.

The economic liquidity status is monitored on the basis of two standard scenarios within the BayernLB Group (management case and planning case) as well as bank-specific scenarios that take the DKB Group's risk profile into account.

The management case represents a scenario in a slightly stressed market and client environment, and considers a period of five years. In addition, the expected new business is derived from the most recent data history and included for the observation period of the next three months. The planning case is based on the management case. Here, the cash flows of the management case are extended to include new business from medium-term planning with a planning horizon of five years. The management case is calculated daily and the planning case monthly.

Taking into account additional leeway, it is the net cash flow from the capital commitment report and the liquidity coverage potential that is of significance for the limits of the management case, whereby the minimum liquidity surplus is measured for multiple periods under consideration. Up to four escalation levels are determined for each period under consideration. The planning case is not limited.

The bank-specific stress scenarios comprise a market stress test that examines the effects of market distortions on the DKB Group's liquidity situation and also takes into account the market liquidity risk, as well as the infrastructure client stress and the retail client stress. In both cases, fund outflows are assumed for these client groups. In the context of combined stress scenarios, the simultaneous occurrence of bank-specific and market-related events are analysed.

MaRisk specifies the time horizons of a week and a month for which liquidatable assets are to be held. Accordingly, the liquidity coverage potential that can be liquidated within one week (LDP0) or one month (LDP1) is determined. To determine the escalation level, the minimum liquidity leeway is determined for both time horizons on the basis of LDP0 or LDP1. The liquidity leeway is defined by how far the liquidity surplus is from the relevant applicable limit. In addition, the time to wall, i.e. the earliest point in time at which the respective liquidity coverage potential is insufficient to meet the net payment obligations of the scenario, is determined in relation to LDP0 and LDP1.

The minimum liquidity leeway in the respective horizon under consideration is crucial for allocation to an escalation level. Besides these quantitative criteria, each member of the emergency committee can also declare a higher liquidity status, for example if a changed market environment justifies this in the view of the member.

To manage the quantitative requirements of the liquidity coverage ratio (LCR), the DKB Group has a limit system with escalation levels, to which recommendations for action and responsibilities are linked depending on the forecast of liquidity development for the next reporting date and the defined limit values for liquidity availability, and which is reported to the Board of Management on a monthly basis. The Reporting and Regulatory Law unit in the Finances division is responsible for monitoring the escalation model for regulatory liquidity management (LCR).

Refinancing

The framework conditions for refinancing are set out in the DKB Funding Policy and the DKB Refinancing Strategy, which are in line with the corresponding guidelines of the BayernLB Group. Based on the DKB Group's multi-year planning, Treasury prepares an annual funding plan in which the refinancing components of the money and capital markets are planned in detail.

The DKB Group refinances itself primarily from client deposits, the development banking business and the issue of capital market products. Client deposits represent more than half of the refinancing base and, due to the high number of clients, in particular in the Retail and Infrastructure areas, are very granular. Following strong growth in previous years, deposits increased by a further EUR 0.4 billion in 2018. The total volume of client deposits now amounts to EUR 54.4 billion (31 December 2017: EUR 53.9 billion). This allowed DKB's fundamental strategy of refinancing the net new business in the area of client loans largely with client deposits to be successfully implemented once more. The high proportion of deposit business makes the DKB Group significantly less sensitive to disruptions on the money and capital markets.

In addition to client deposits, subsidies represent another important pillar of refinancing. In 2018, new programme loans with a volume of EUR 1.3 billion (31 December 2017: EUR 1.7 billion) were agreed. Total transit and global loans amounted to approximately EUR 12.4 billion at the end of 2018 (31 December 2017: EUR 13.5 billion).

DKB AG has the option of issuing uncovered bonds and Pfandbriefs in a benchmark or private placement format in order to raise medium- and long-term refinancing funds. To this end, Pfandbriefs in a volume of EUR 550 million were placed in the reporting year. Most of the issuing activity was attributable to the issue of the first social covered bond (Sozialer Öffentlicher Pfandbrief) of DKB AG with a volume of EUR 500 million. The capital market issues have a diversifying effect on the refinancing structure and demonstrate access to the capital market at all times. The rating agency Moody's continued to rate DKB AG's public-sector and mortgage Pfandbriefs at "Aaa". The uncovered bonds of DKB AG were rated at "A2".

If necessary, the interbank money market is used for short-term refinancing and liquidity management/optimisation.

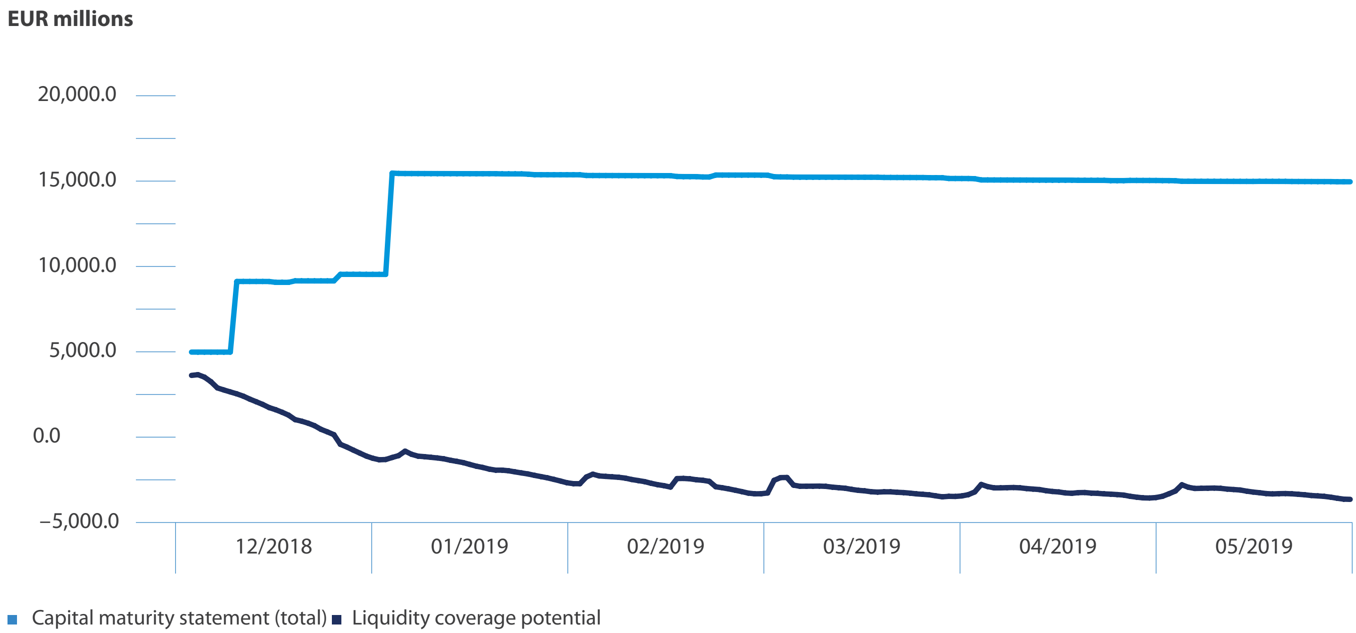
The nominal value of the securities in the liquidity portfolio increased to EUR 6.1 billion in the course of the year. As a component of the counter-balancing capacity, it contributes to increasing the risk resistance in unexpected stress situations.

During the reporting year, the DKB Group was able to meet all its liabilities by the due dates.

Development of the risk situation

Due to the refinancing strategy chosen, the greatest risk is a massive, short-term outflow of client deposits. In addition, there is the risk of having to cover existing future liquidity bottlenecks at higher refinancing costs.

DKB AG's liquidity overview as at 31 December 2018 has the following structure in the management case for the next 180 days:



The strategic liquidity management is carried out with the help of a weekly rolling liquidity forecast. The liquidity coverage potential covers the liquidity gaps in the capital maturity statement at all times. The balance arising from the capital maturity statement and the liquidity coverage potential is called the liquidity surplus. With the currently prevailing limit system, the lowest liquidity surplus as at the reporting date is EUR 7.2 billion within the next 180 days. DKB AG thus has sufficient liquidity.

In addition, for several stress scenarios the DKB Group takes into account the additional observation period of one week and one month for capital-market-oriented institutions in accordance with BTR 3.2 MaRisk. Besides the effects of a market liquidity crisis, the rapid outflow of funds in the important retail client and infrastructure segments, as well as combinations of stress events, are considered in other scenarios. The minimum liquidity surplus for the next 180 days is EUR 5.4 billion in the worst-case scenario (combination of market and retail client stress).

The regulatory LCR was complied with throughout 2018. As of 31 December 2018, the LCR was 162% (31 December 2017: 168%), well above the regulatory requirement of 100%. With the revision of the Liquidity Regulation by BaFin and the Bundesbank at the end of 2017, the resulting ratio for DKB no longer requires reporting and was calculated for the last time as of 31 December 2017.

Operational risks

Risk management and monitoring

Operational risk is managed and monitored both centrally in the Non-Financial Risk division and decentrally in the individual client service units and central units. The Non-Financial Risk division is in principle responsible for the monitoring of operational risks. In assuming this responsibility, it is supported by the other central units.

In the management of operational risks, the focus is on the early identification of these risks in order to minimise as far as possible, by means of targeted measures, the losses from operational risks that may have a significantly negative impact on the bank's business success.

The DKB Group uses various instruments and methods to record, measure, analyse and assess the risk situation.

Recording loss data allows loss events to be identified, analysed and assessed so that patterns, trends and concentrations of operational risks can be identified. Based on a defined loss reporting process, loss events with a booked and/or estimated gross amount starting at EUR 500 are reported by DKB's organisational units to the Non-Financial Risk division and recorded in the OpRisk database. Similarly, passive legal disputes with a probability of success from 50% and lost passive legal disputes must be reported. The subsidiaries DKB Service GmbH, DKB Finance GmbH, DKB Grund GmbH and DKB WSE GmbH are also included in the reporting system for recording losses. In addition, all subsidiaries must report losses to DKB AG on an ad-hoc basis. This ad-hoc reporting obligation is applicable throughout the Group.

Depending on the significance of the losses incurred, measures to avoid, reduce or transfer the risk are initiated, taking cost/benefit aspects into account, or a deliberate decision to accept the risk is made. When determining a management measure, a schedule to implement the measure is prepared and the implementation is monitored by the Non-Financial Risk division.

During the annual OpRisk Self-Assessment (OSA), rare but realistic and potentially serious operational risks are determined and assessed under the coordination of the Non-Financial Risk division with the various organisational units of the bank and the subsidiaries involved in the reporting process. Scenarios are selected on the basis of the significant risks identified in the OSA. Within the scenario analysis, significant risks are analysed in more detail than in the OSA in order to specify and assess risk drivers, internal and external factors influencing the probability of occurrence, the extent of damage and thus the overall loss distribution. This enables more precise control (for example, by implementing further measures and/or controls).

In addition to the collection of loss data and the OSA, critical risk indicators (key risk indicators) enable early statements to be made on trends and accumulations in risk development and allow weaknesses in business processes to be identified at an early stage and measures to be adopted without delay. The key risk indicators in the DKB Group are defined, for example, in the respective (sub-)risk strategies.

In addition, the bank has instituted a decentralised quality management process to avoid losses from process weaknesses in the market areas. At the same time, the central Organisation division is responsible for the organisation, optimisation and management of bank-wide work processes in cooperation with the affected organisational units of the bank.

When determining legal risks arising due to or in connection with charges filed against the bank (passive processes), the competent legal unit assesses the risk parameters with respect to their probability of occurrence as well as any potential effects in terms of quantity and quality. Identified legal risks are limited and reduced by legal or procedural measures or taken into account by means of provisions.

DKB's units take comprehensive preventive measures to guarantee the security of information and applications as well as to maintain ongoing operations. The bank has implemented an Information Security Risk Management (ISRM) process to identify and handle information security risks. The information security objectives and strategic approaches are put into operation by means of specific and measurable methods. The success of the measures implemented is reviewed by means of key performance indicators (KPIs). The management and monitoring of IT/information security is performed by the Information

Security Officer as part of the Information Security Management System (ISMS).

In addition, the bank manages its risk of operational business continuity in dealing with emergency cases and crises via the Business Continuity Management Strategy (BCM Strategy), which prescribes core processes and measures to continue and restore time-sensitive activities and processes of business operations. The BCM strategy is regularly reviewed to ensure that it is up to date. In addition to the BCM Strategy, emergency plans exist for all time-critical processes, which are regularly tested. In addition, a crisis management team was appointed by the Board of Management, which is authorised to act in emergencies and crises. The crisis team is set up for an indefinite period and consists of heads of central DKB AG divisions and two managing directors of DKB Service. The Board of Management bears overall responsibility for DKB's BCM, in compliance with Group-wide requirements.

The results of this method are fed into the calculation of the amount of risk capital required for operational risks. The economic risk capital is calculated using the liquidation approach and the going-concern perspective using an OpVaR model. The limits for the risk capital are calculated as part of the annual risk capital allocation process.

From the reports made to it, the Board of Management receives an overview of the level of losses incurred, observed accumulations as well as the development of OpRisk-relevant indicators on an ongoing basis, ensuring timely and effective management of the operational risks. In addition, the DKB Group is included in the Group-wide risk management system and therefore in the reporting process of the BayernLB Group. Accordingly, if defined reporting limits have been exceeded, losses are reported to BayernLB on a regular or ad-hoc basis. In the 2018 financial year, there was a change in the presentation of collective losses and legal risks. These are now taken into account on an aggregated basis at the time at which the facts were first recorded. This approach increases the transparency of new claims in the reporting periods.

Development of the risk situation

The risk profile is characterised by the Internet-based processes in the Retail Clients segment. In the first instance, operational risks exist in terms of system availability for seamless settlement of all transactions, disruption of the bank's Internet portal due to external influences, the security of data from unauthorised access, account opening or credit fraud with falsified documents and fraud with electronic payment means. In addition, operational risks have recently been strongly influenced by decisions of the Federal Court of Justice for retail and corporate clients, which leads to increased legal risks, for instance.

The losses incurred in 2018 due to operational risks, after implementation of measures to reduce losses, increased slightly compared to the previous year and, as at the reporting date, amounted to around EUR 17.0 million (31 December 2017: EUR 8.6 million). The increase over the previous year is mainly due to more recent decisions by higher courts regarding the reversal of loans in distance selling. Accordingly, the bank's claim to compensation for the value in use (loan interest) may, under certain circumstances, cease to apply. To protect against possible repayments, a suitable provision was created. At the same time, the previous year's figure decreased as a result of the reversal of a provision which was formed as a precaution in connection with the decision of the Federal Court of Justice on processing fees in the 2017 financial year.

Opportunities report

Opportunities profile and opportunities management

We regard opportunities as being positive deviations from our plans in terms of strategy and market development. Strategic opportunities for the company arise in connection with the implementation of measures initiated in line with our strategy. The effects realised via these measures can be more extensive or occur sooner than expected in our planning.

Market opportunities arise with market developments that occur more strongly than expected in favour of DKB, irrespective of strategic decisions. These can arise due to regulatory amendments, particularly favourable developments on the (financial) markets or from positive business trends that arise at short notice.

Management of opportunities linked to company management

DKB integrates the topic of developing opportunities directly into the strategic corporate plan. As part of its forward-looking management, the Board of Management and the business units directly assigned to it regularly analyse short-, medium- and long-term market developments. They identify trends and devise possible development scenarios based on facts.

An important factor for deciding which resources will be made available for the development of additional potential in the respective segments is their expected effect on results and our estimate of their probability of occurrence.

We continually adapt our assessment of the opportunities by continuously observing the markets and trends, as well as through established feedback processes. The high degree of timeliness in our evaluations allows us to react quickly to short-term events and developments.

Current opportunities situation

The macroeconomic circumstances may develop better than expected: low interest rates and greater trust from consumers and market participants could result in a significant upturn. In the retail clients business, rising consumer trust could result in increased demand for consumer credit and an increase in the achievable margins in the Retail Clients segment. A broad-based upturn would stimulate companies' investment activities and create a corresponding demand for loans in the Infrastructure and Corporate Clients segments. At DKB, this could lead to an unexpectedly sharp increase in interest income.

The money and capital market environment could develop more advantageously than assumed. The ECB's withdrawal from the purchase programmes could result in a rise in the interest rate curve in capital market interest rates, with the ECB raising the short-term base interest rate more slowly in comparison. Assuming a constant demand for loans, this configuration could result in higher margins for long-term loans with the costs for the more short-term refinancing products increasing less rapidly in comparison. This would result in an increase in net interest income for DKB.

Due to the continuing uneven economic development in Europe and the volatile performance of commodity prices, the probability of occurrence for the aforementioned two opportunities scenarios is regarded as low. However, should they occur, DKB will be in a position to take advantage of them.

Expectations of rising interest rates could lead to an increase in demand for financing on the part of companies in the short term and thus generate increased demand for credit in the Infrastructure and Corporate Clients segments. This could result in an increase in income from the credit business. We consider the probability of realising this opportunity to be moderate.

The trend of competitors introducing or raising account management fees could develop more strongly than expected. This would result in a sharp increase in the number of people switching their accounts from traditional branch banking to online banking. Given the above, the number of new clients in the Retail Clients segment could develop particularly favourably. We consider the likelihood of this to be low, but are prepared for a possible increase in new client applications.

The advancing digitalisation offers opportunities for increasing efficiency. In business with retail clients, mobile banking and mobile payment as well as the use of artificial intelligence will continue to gain in importance. The launch of Google Pay and Apple Pay in 2019 could lead to more new clients. We are ready for this.

The increase in new market participants such as fintechs and financial service providers favoured by digitalisation offers the opportunity for cooperation or investments in order to deploy the highly technical, innovative solutions and new technologies and thus improve our market position. DKB is well positioned to take advantage of these opportunities.

We plan to draw efficiency gains in the medium term from the ongoing digitalisation of processes within DKB as well. These could occur earlier than expected, in particular in the digitalisation of the credit process, which simplifies the work processes and frees up capacities for other activities. This could have either a positive or moderating effect on DKB's administrative expense. We believe that there is little chance of efficiency gains occurring at an earlier stage.

In the course of the increasing sustainable focus of market participants, investor interest in sustainable financial offers could increase sharply. Based on DKB's excellent reputation in this field, which was further boosted by the issue of two green bonds in previous years and the social bond in 2018, the demand for DKB services could grow at a higher rate than expected. In addition, there are numerous European and international initiatives for the political and regulatory promotion of sustainable business models. Examples include the EU Commission's High Level Expert Group on Sustainable Finance (HLEG), which published its catalogue of recommendations at the beginning of 2018, and the Task Force on Climate-related Financial Disclosures (TCFD), which has provided extensive suggestions for the further development of transparency regulations within the framework of the Financial Stability Board. Should these proposals lead to concrete political or regulatory measures to support sustainable lending business, this could be advantageous for DKB. The probability of this scenario occurring is considered to be rather low. However, should the opportunities arise, DKB will be in a position to take advantage of them.

In addition, there could be an unexpected short-term boost from the regulatory environment: pending regulatory changes could result in lower equity than planned and result in more financial leeway for DKB. At present, we consider the probability of this scenario to be very low.

Report on expected developments

Expected developments in the business environment

The number of global problem areas in politics and business remains high. The US customs dispute, the unclear consequences of Brexit and the explosive economic situation in Italy are three issues that directly affect the German economy and make the situation difficult for the financial markets.

Global upswing slows down – deterioration in Germany

In 2019, the economic curve of the global markets will remain upward, but growth will weaken slightly by 0.3 percentage points to 3.4%. For Germany, economists are expecting a significant slowdown in economic development. The German government has lowered its GDP growth forecast from 1.8% to 1.0% – the lowest figure since 2013. Although the domestic economy remains an important economic pillar for Germany, foreign trade risks have increased due to Brexit and the trade conflict between the USA and China.

Financing environment remains conducive to economic growth

Even though the ECB Council discontinued the asset purchase programme towards the end of the year, it reserves the right to replace maturing bonds for an extended period even after the net purchases have been completed. The aim is to maintain favourable liquidity conditions and substantial monetary policy accommodation.

With regard to key interest rates, the ECB Council plans to hold them at their current level for at least the summer of 2019 or as long as necessary. The main refinancing rate will thus remain at 0%, the interest rates for marginal refinancing and the deposit facility at 0.25% and –0.40%, respectively. In view of the widely differing interest rate trends – both within the eurozone and in comparison between Europe and the USA – we continue to expect volatile bond and stock markets.

The financing environment will thus remain stimulating in the coming year and promote economic development. This will have a positive effect on both exports and investment activity. In addition, private and public consumption will also increase. The persistently good situation on the labour market remains the main reason for the strong consumer sentiment in the private sector. The Bundesbank forecasts that the unemployment rate will fall by a further 0.4 percentage points to 4.8% in the course of the year. The number of employees is expected to increase by 0.8%.

Price rises weaken temporarily

The Bundesbank expects inflation excluding the volatile components of energy and food (core rate) to rise from 1.2% last year to 1.8% in 2020. For overall inflation, it expects moderated increases in prices of 1.4% in 2019 (2018: 1.9%), before reaching 1.8% again in 2020. The reason for the lower inflation in the short term is the expectation of a sharp slowdown in energy prices.

As in previous years, there are numerous factors that make it difficult to assess further economic development. For this reason, the following statements on the expected development of the Group are made under the proviso that the underlying political and economic conditions do not change significantly.

Expected growth within the Group

DKB Group	Actual 2018	Forecast 2019
Net interest income	EUR 976.7 million	**Slightly below 2018** We expect a slight decline in net interest income. The fundamentally positive development due to growth in the market segments is offset by burdens from the ongoing low interest phase.
Risk result	EUR –111.8 million	**Slightly better than 2018** Against the background of stable economic conditions, we expect a slightly lower burden from the risk result.
Profit/loss before taxes	EUR 301.2 million	**Slightly below 2018** We anticipate stable business development. Due to slightly lower net interest income and the expenses for internal projects to digitise processes and implement regulatory requirements, profit before taxes is expected to be slightly lower than in the previous year.
Total assets	EUR 77.4 billion	**Slightly above 2018** Due to the growth planned in our market segments, we expect a slight increase for 2019.
RoE	10.2%	**Slightly below 2018** Due to the strengthening of the capital base and a slightly lower result, we expect a slight decline in RoE to between 8.0% and 10.0%.
CIR	51.5%	**Slightly above 2018** Due to the slightly lower net interest income and the expenses for internal projects to digitise processes and implement regulatory requirements, we expect a CIR of between 52% and 55%.

DKB AG	Actual 2018	Forecast 2019
Net profit for the year before allocation to the fund for general banking risks and before profit transfer	EUR 295.1 million	**Slightly below 2018** We also anticipate a slight decline in earnings at DKB AG.

Expected developments in the segments

Segments	Actual 2018	Forecast 2019
Retail clients		
New clients:	388,000	More than 350,000
Receivables volume:	EUR 12.4 billion	Slightly above 2018
Infrastructure		
Receivables volume:	EUR 40.2 billion	Slightly above 2018
Corporate clients		
Receivables volume:	EUR 13.2 billion	Slightly above 2018
Deposit volumes in the client segments	**EUR 50.5 billion**	**Slightly above 2018**

Retail Clients segment: intensification of business relations

In our business with retail clients in 2019, we will consistently pursue our strategy of focusing on our clients' needs. Our goal is to maintain the 2018 earnings level despite the continued fierce competition in the market and to increase it again slightly. While the volume of receivables is expected to be slightly higher than in the previous year, we expect the volume of deposits to increase in line with the market and interest rate environment.

In the coming financial year, we plan to gain 350,000 new clients. Growth will primarily take place via our anchor product DKB Cash. At the same time, we intend to intensify our existing business relationships and further increase the number of lending clients. We are following our Digital Roadmap and creating added value for our clients by offering new features and services, especially in the areas of credit cards and payment. At the same time, we will continue to expand our measures against cybercrime.

In 2019, we will offer our clients innovative and, above all, fast payment solutions with the mobile payment methods Google Pay and Apple Pay. Clients with a DKB VISA card will then be able to use their smartphone to make mobile purchases in all shops where payment via NFC is possible, as well as to make mobile payments on a large number of websites and in apps.

The RoboKredit project, which was launched in 2018 to fully automate credit decisions in the private loan business, is expected to see the first automated credit decisions in mid-2019.

In the area of real estate financing, we intend to strengthen our activities in 2019 in order to generate further new business. We will also continue to expand the securities business, which is developing very well, in the coming year.

Infrastructure segment: repayments remain challenging

In the Infrastructure segment, we expect the general conditions for the lending business to remain positive in 2019. We expect financing requirements to remain high in all our target industries – even if interest rates rise slightly. The already strong competition is likely to be intensified by the further establishment of digital platforms. Under these conditions, we forecast a stable development of our lending business, although compensation for the persistently high repayment ratio remains challenging. We see growth potential above all in the old federal states of Germany. The development of the volume of liabilities will be significantly influenced by the market's handling of negative interest rates.

For the local authorities and social infrastructure client group, we expect moderate growth in the lending business in a persistently favourable environment. Local authorities will continue to invest in the expansion and reconstruction of public infrastructure in order to counter the investment backlog. Despite an improved budgetary position, they remain under pressure to consolidate. In the Care segment, the focus is increasingly on alternative forms of living such as assisted living and outpatient assisted living groups. Companies in the social economy will increasingly have to contend with the shortage of skilled workers, especially in the care sector and among nursery staff and teachers at schools.

In the energy and utilities client group, the investment required to ensure supply and disposal stability will also remain high in 2019. Against this background, we plan to offset the expected repayments with corresponding new business. In view of the expected high volume of repayments, however, we cannot rule out a decline in the volume of receivables.

In the housing client group, we expect demand for real estate and new housing construction to remain high. The interest rate situation is favourable and the policy is accelerating corresponding market activities. The demographic development and internal migration to "swarm cities" are leading to a persistently high demand for new buildings in the conurbations. At the same time, many properties require energy refurbishment, modernisation or age-appropriate conversion. Due to liquidity surpluses on the financial market, we expect competition to remain fierce – also with companies outside the banking sector. Due to the lack of available properties in A locations, market participants will increasingly switch to properties in B and C locations.

With the ECB's continued low-interest policy, the client group of administrators will continue to operate in an environment of high capital flows for real estate in 2019. Urbanisation, digitalisation, energy transformation and e-mobility will be important issues for the industry in the coming years. The size of property management companies will increase in order to be able to cope with the diverse tasks and challenges.

The issues surrounding the energy transformation are meeting with a high level of acceptance among the public, so we expect a stable business development overall for civic participation. Numerous civic wind energy projects commissioned in 2017 will be implemented. A number of communal housing projects will also be implemented in the coming financial year.

Corporate Clients segment: moderate growth expected

In the Corporate Clients segment, the expected clarity of the legal framework for the environmental technology client group and the ongoing concentration processes in agriculture will again lead to an increase in financing requirements. The continuation of the expansion of our food business and increasing demand in the sector of comprehensive energy solutions further expand the business potential. We therefore expect moderate growth in the Corporate Client segment in 2019.

Conditions for the environmental technology client group improved compared with the previous year: with the adoption of the Energy Collection Act, which, among other things, governs special invitations to tender for wind energy and photovoltaics until 2021, there is again more clarity about the further legally secured expansion framework in these technologies. We therefore expect demand for new installations to pick up, particularly in the wind segment. The slightly positive development in photovoltaic projects will also continue in 2019. We expect demand for the recently developed financing solutions for energy contracting and system services within the framework of grid management to continue to grow. We hope to benefit from this and intend to actively expand this segment. We see new opportunities in the area of infrastructure for e-mobility solutions.

In the food and agriculture client group, we expect stronger demand for loans for the necessary modernisation of stall facilities in 2019. The demand for credit for land purchases and the acquisition of businesses will remain stable. We continue to assess the financing prospects in the food industry segment for capacity expansion and necessary working capital as positive. With new cooperation agreements and digital services, we intend to further increase awareness of the DKB brand, particularly in the old federal states, and thus further support the increase in business volume.

For the tourism client group, we also expect positive framework conditions in 2019 with continued intense banking competition in our destinations. We will intensify our activities outside our core markets in order to diversify our portfolio and expect the volume of receivables to remain constant.

Financial Markets segment: focus on proven methods

We will continue to pursue our proven refinancing strategy in the future. To expand our liquidity reserve, we are concentrating on a portfolio of highly liquid bonds from issuers with strong credit ratings. Wherever possible, we also make use of investments in sustainable bonds. The bonds we invest in will include both green bonds and sustainability bonds or social bonds from various corporate sectors. The investment process focuses on compliance with the Green Bond Principles or Social Bond Principles and a comprehensive analysis of the creditworthiness and sustainable performance of issuers.

Other segment

DKB Service GmbH will continue its activities in 2019 in line with its task profile for the DKB Group. Our focus continues to be on automating and digitising key processes.

The now extremely low level of non-core business activities will be further reduced in an orderly manner in the coming financial year.

Brexit

In a referendum held in June 2016, the United Kingdom decided to withdraw from the European Union (Brexit). As things stand at present, British EU membership will end on 29 March 2019, unless the EU decides to extend the deadline in agreement with the United Kingdom. At the time of the preparation of this Management Report it was not certain to what extent the withdrawal would take place within the framework of a withdrawal agreement negotiated between the EU and the United Kingdom, or if the withdrawal would be unregulated, i.e. without such an agreement (“no-deal Brexit”). The DKB Group has examined the effects of a possible no-deal Brexit and sees only minor effects on the risk and earnings situation of the DKB Group, primarily due to the concentration of its business activities on Germany, the focus on cyclically independent and sustainably oriented target sectors and the strong diversification of its loan portfolio.

Conclusion

Overall, we expect good business development in the three market segments of Retail Clients, Infrastructure and Corporate Clients, which will enable us to keep our earnings stable despite the persistently low interest rates.

Against the background of expenses for internal projects to digitise processes and implement regulatory requirements, we expect a slightly lower profit before tax in the DKB Group for 2019 and slightly lower net income before additions to the fund for general banking risks and before profit transfer from DKB AG.

Consolidated financial statements

Consolidated statement of comprehensive income

for the period from 1 January 2018 to 31 December 2018

Income statement

EUR millions	Notes	1 Jan.–31 Dec. 2018
Interest from financial instruments calculated using the effective interest method		1,004.1
Interest income		1,712.4
Positive interest expenses		6.7
Interest expenses		–697.4
Negative interest income		–17.5
Other interest		–27.4
Interest income		3.4
Positive interest expenses		0.0
Interest expenses		–8.0
Negative interest income		–22.9
Net interest income	(28)	976.7
Risk provision result		–104.8
Result from the disposal of AAC category financial instruments		–7.0
Risk result	(29)	–111.8
Net interest income after risk result		864.9
Commission income		257.2
Commission expenses		–290.9
Net commission income	(30)	–33.7
Gains or losses on fair value measurement	(31)	2.8
Gains or losses on hedging transactions		–43.5
Gains or losses on financial investments	(32)	0.4
Administrative expenses	(33)	–474.7
Expenses from the bank levies, deposit protection and banking supervision	(34)	–40.3
Other income and expenses	(35)	25.2
Gains or losses on restructuring	(36)	0.0
Profit/loss before taxes		**301.2**
Income taxes	(37)	–0.1
Consolidated profit/loss		**301.1**
attributable to DKB AG owners		301.1
Profit transferred to controlling shareholders		–95.1
Profit brought forward		17.5
Withdrawals from retained earnings		0.0
Transfer to retained earnings		–0.5
Consolidated net retained profits/net accumulated losses		**223.0**

For mathematical reasons, rounding differences of ± one unit may arise in the table.

Reconciliation of comprehensive income for the period

EUR millions	1 Jan.–31 Dec. 2018
Consolidated profit/loss	**301.1**
Temporary components of other comprehensive income that are not recognised in profit or loss	
Changes in the revaluation surplus from FVOCIM financial instruments	**–21.3**
Change in measurement	–19.3
Change in portfolio due to realisation of profit or loss	–2.4
Change in deferred taxes	0.4
Changes in the revaluation reserve arising from non-current assets held for sale	**–**
Change in measurement	–
Change in portfolio due to realisation of profit or loss	–
Components of other comprehensive income permanently not recognised in profit or loss	
Changes from the revaluation of defined benefit pension plans	**–1.3**
Change in measurement	–1.3
Change in deferred taxes	–
Other comprehensive income	**–22.6**
Total comprehensive income	**278.5**
attributable to DKB AG owners	278.5

For mathematical reasons, rounding differences of ± one unit may arise in the table.

Consolidated statement of comprehensive income

for the period from 1 January 2017 to 30 June 2017

Income statement

EUR millions	1 Jan.–31 Dec. 2017
Interest income	1,876.1
Positive interest expenses	2.2
Interest expenses	–897.7
Negative interest income	–45.4
Net interest income	935.2
Risk provisions	–127.3
Net interest income after risk provisions	807.9
Commission income	329.7
Commission expenses	–368.9
Net commission income	–39.2
Gains or losses on fair value measurement	89.7
Gains or losses on hedging transactions	–124.2
Gains or losses on financial investments	20.8
Administrative expenses	–446.3
Expenses from the bank levies, deposit protection and banking supervision	–37.4
Other income and expenses	–3.2
Gains or losses on restructuring	–3.4
Profit/loss before taxes	**264.7**
Income taxes	–1.5
Consolidated profit/loss	**263.2**
attributable to DKB AG owners	263.2
Profit transferred to controlling shareholders	–
Profit brought forward	12.2
Transfer to retained earnings	–0.5
Consolidated net retained profits/net accumulated losses	**274.9**

For mathematical reasons, rounding differences of ± one unit may arise in the table.

Reconciliation of comprehensive income for the period

EUR millions	1 Jan.–31 Dec. 2017
Consolidated profit/loss	**263.2**
Temporary components of other comprehensive income that are not recognised in profit or loss	
Changes in the revaluation surplus from AfS financial instruments	**–28.2**
Change in measurement	–6.9
Change in portfolio due to realisation of profit or loss	–21.5
Change in deferred taxes	0.2
Changes in the revaluation reserve arising from non-current assets held for sale	**–**
Change in measurement	–
Change in portfolio due to realisation of profit or loss	–
Components of other comprehensive income permanently not recognised in profit or loss	
Changes from the revaluation of defined benefit pension plans	**1.4**
Change in measurement	1.4
Change in deferred taxes	0.0
Other comprehensive income	**–26.8**
Total comprehensive income	**236.4**
attributable to DKB AG owners	236.4

For mathematical reasons, rounding differences of ± one unit may arise in the table.

Consolidated balance sheet

As of 31 December 2018

Assets

EUR millions	Notes	31 Dec. 2018	31 Dec. 2017
Cash reserves	(7/38)	1,046.2	1,742.8
Loans and advances to banks	(8/39)	3,687.8	4,601.6
Loans and advances to clients	(8/40)	65,932.5	64,552.2
Risk provisions	(9/41)	–420.7	–356.9
Portfolio hedge adjustment assets	(10)	407.1	455.4
Assets held for trading	(11/42)	3.2	3.6
Positive fair values from derivative financial instruments (hedge accounting)	(12)	0.0	0.0
Financial investments	(13/43)	6,362.3	6,027.9
Property, plant and equipment	(15)	54.1	46.5
Intangible assets	(16)	14.4	9.2
Current income tax assets	(26/44)	1.6	0.0
Deferred income tax assets	(26/44)	–	0.3
Other assets	(17)	299.1	240.3
Total assets		**77,387.6**	**77,322.9**

For mathematical reasons, rounding differences of ± one unit may arise in the table.

Liabilities

EUR millions	Notes	31 Dec. 2018	31 Dec. 2017
Liabilities to banks	(18/45)	13,813.3	14,381.1
Liabilities to clients	(18/46)	54,366.1	53,931.0
Securitised liabilities	(18/47)	4,622.3	4,725.1
Trading liabilities	(19/48)	1.2	22.3
Negative fair values from derivative financial instruments (hedge accounting)	(20)	17.0	17.7
Provisions	(21/49)	180.4	164.4
Current income tax liabilities	(26/50)	0.6	1.2
Deferred income tax liabilities	(26/50)	–	0.0
Other liabilities	(22)	264.5	139.9
Subordinated capital	(23/51)	781.7	684.7
Equity	(52)	3,340.4	3,255.5
Equity excluding non-controlling interests		3,340.4	3,255.5
Subscribed capital		339.3	339.3
Capital surplus		1,414.4	1,414.4
Retained earnings		1,303.8	1,093.4
Revaluation surplus		59.9	133.5
Consolidated net retained profits/net accumulated losses		223.0	274.9
Total liabilities		**77,387.6**	**77,322.9**

For mathematical reasons, rounding differences of ± one unit may arise in the table.

Consolidated statement of changes in equity

EUR millions	Subscribed capital	Hybrid capital	Capital surplus	Retained earnings	Revaluation surplus	Consolidated net retained profits/net accumulated losses	Equity before non-controlling interests	Non-controlling interests	Total equity
As at 31 Dec. 2016	**339.3**	**0.0**	**1,414.4**	**1,024.0**	**161.7**	**79.7**	**3,019.1**	**0.0**	**3,019.1**
Changes in the revaluation surplus					–28.2		–28.2		–28.2
Changes from the revaluation of defined benefit pension plans				1.4			1.4		1.4
Other comprehensive income	**0.0**	**0.0**	**0.0**	**1.4**	**–28.2**	**0.0**	**–26.8**	**0.0**	**–26.8**
Consolidated profit/loss						263.2	263.2		263.2
Total consolidated profit/loss	**0.0**	**0.0**	**0.0**	**1.4**	**–28.2**	**263.2**	**236.4**	**0.0**	**236.4**
Capital increases/capital reductions							0.0		0.0
Changes in the scope of consolidation and other changes							0.0		0.0
Transfers to/withdrawals from reserves				68.0		–68.0	0.0		0.0
Transferred profit							0.0		0.0
Distribution							0.0		0.0
As at 31 Dec. 2017	**339.3**	**0.0**	**1,414.4**	**1,093.4**	**133.5**	**274.9**	**3,255.5**	**0.0**	**3,255.5**
IFRS 9 first-time application effect				–46.2	–52.2		–98.4		–98.4
As at 01 Jan. 2018	**339.3**	**0.0**	**1,414.4**	**1,047.2**	**81.3**	**274.9**	**3,157.1**	**0.0**	**3,157.1**
Changes in the revaluation surplus					–21.4		–21.4		–21.4
Changes from the revaluation of defined benefit pension plans				–1.3			–1.3		–1.3
Other comprehensive income	**0.0**	**0.0**	**0.0**	**–1.3**	**–21.4**	**0.0**	**–22.7**	**0.0**	**–22.7**
Consolidated profit/loss						301.1	301.1		301.1
Total consolidated profit/loss	**0.0**	**0.0**	**0.0**	**–1.3**	**–21.4**	**301.1**	**278.4**	**0.0**	**278.4**
Capital increases/capital reductions							0.0		0.0
Changes in the scope of consolidation and other changes							0.0		0.0
Transfers to/withdrawals from reserves				257.9		–257.9	0.0		0.0
Transferred profit						–95.1	–95.1		–95.1
Distribution							0.0		0.0
As at 31 Dec. 2018	**339.3**	**0.0**	**1,414.4**	**1,303.8**	**59.9**	**223.0**	**3,340.4**	**0.0**	**3,340.4**

Consolidated cash flow statement

EUR millions	2018	2017
Consolidated annual result	**301.1**	**263.2**
Non-cash items included in the annual result and reconciliation to cash flow from operating activity		
Depreciation, allowances and attributions on/to receivables, property, plant and equipment, and financial investments	115.0	133.0
Changes to provisions	19.0	43.0
Changes to other non-cash items	44.8	269.6
Result from the sale of financial investments and property, plant and equipment	–0.8	0.2
Other adjustments (on balance)	–976.6	–934.1
Subtotal	**–497.5**	**–225.1**
Change in assets and liabilities from operating activity after correction for non-cash components		
Loans and advances to banks	912.4	762.3
Loans and advances to clients	–1,572.1	–1,487.2
Securities (insofar as these are not financial investments)	–355.3	–165.8
Other assets from operating activity	–61.8	42.7
Liabilities to banks	–555.4	–117.2
Liabilities to clients	443.2	508.5
Securitised liabilities	–98.8	266.2
Other liabilities from operating activity	–1.3	–163.2
Interest and dividends received	1,784.1	1,821.1
Interest paid	–767.6	–949.5
Income tax payments	–0.1	–1.1
Cash flow from operating activities	**–770.2**	**291.7**

EUR millions	2018	2017
Payments received from the sale of financial investments	1.3	16.1
Payments received from the sale of property, plant and equipment	0.1	0.1
Payments made for the acquisition of financial investments	–3.2	–0.3
Payments made for the acquisition of property, plant and equipment	–21.6	–13.4
Effects from the change in the group of consolidated companies		
Payments received from the sale of subsidiaries and other business units	–	–
Payments made for the acquisition of subsidiaries and other business units	–	–
Change in cash from other investment activity (on balance)	–	–
Cash flow from investing activities	**–23.4**	**2.5**
Payments received from contributions to equity	–	–
Payments made for reductions in equity	–	–
Payments made to shareholders and non-controlling interests	–	–255.8
Change in cash from other capital (on balance)	97.0	275.8
Cash flow from financing activities	**97.0**	**20.0**
Cash and cash equivalents as at the end of the previous period	**1,742.8**	**1,428.6**
Cash flow from operating activities	–770.2	291.7
Cash flow from investing activities	–23.4	2.5
Cash flow from financing activities	97.0	20.0
Effects of exchange rate changes, valuation changes and changes in the group of consolidated companies	–	–
Cash and cash equivalents as at the end of the period	**1,046.2**	**1,742.8**

Explanation of the cash flow statement

The cash flow statement presents the development and composition of the cash and cash equivalents for the financial year, and is divided into the sections "Operating activity", "Investment activity" and "Financing activity".

The cash flow from operating activity is presented based on the consolidated net income prior to contractual profit transfer using the indirect method.

Payment flows from receivables and liabilities vis-à-vis banks and clients, securities held for trading, securitised liabilities and other assets and liabilities are shown here. Interest and dividend payments resulting from operating activity are likewise included.

Cash flow from investment activities includes payments for investments, securities and property, plant and equipment, as well as changes in the group of consolidated companies.

The cash flow from financing activity shows the cash change in subordinate capital and payments to shareholders.

The cash and cash equivalents disclosed correspond to the balance sheet item cash reserves and thus encompass the cash-in-hand and bank balances with central banks.

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Explanations regarding the consolidated financial statements

The consolidated financial statements of Deutsche Kreditbank AG (DKB), with its registered office in Berlin (Berlin-Charlottenburg Local Court, commercial register number: HRB 34165), were prepared in compliance with Section 315e (1) German Commercial Code (Handelsgesetzbuch; HGB) and EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, as well as other ordinances on the adoption of specific international accounting standards on the basis of the International Financial Reporting Standards (IFRSs) adopted and published by the International Accounting Standard Board (IASB). Along with the standards designated as IFRSs, the IFRSs also encompass the International Accounting Standards (IASs) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC). These consolidated financial statements are based on the IFRSs as applicable in the EU.

All mandatory standards and interpretations were taken into consideration, where relevant to the DKB Group.

The consolidated financial statements include the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes, including segment reporting. The reporting currency is the euro.

The consolidated management report is printed in a separate section of the annual report. Part of the risk reporting is presented as a component of the risk report in the consolidated management report. Further details on the risk situation according to IFRS 7 are provided in Note 65 "Risks from financial instruments".

All amounts are shown in millions of euros (EUR millions) unless otherwise indicated. Due to the calculation methods applied, rounding differences may arise in the tables.

General accounting and measurement methods

(1) Fundamentals of consolidated financial reporting

The consolidated financial statements were prepared under the assumption that this is a going concern. Income and expenses are accrued and recognised through profit or loss for the period to which they relate.

Accounting in the DKB Group is performed according to uniform Group accounting and measurement methods.

The consolidated financial statements contain values which we have determined using estimates and assumptions, as permitted. The estimates and assumptions used are based on historical experience and other factors, such as expectations with respect to future events. The estimates and assessments themselves, as well as the underlying assessment factors and estimate methods, are regularly examined and compared against the actually occurring events. In our view, the parameters used are appropriate. Estimation uncertainties result, inter alia, during the determination of provisions, of risk provisions in the lending business, of deferred tax assets and during the fair value determination of financial instruments.

When determining provisions, estimation uncertainties exist with respect to the settlement amount and the likelihood of occurrence.

For financial instruments measured at amortised acquisition costs, the Group publishes the fair value. In principle, there is little to no trading activity for these financial instruments, which is why significant estimates by management are required to determine the fair value.

Financial assets, liabilities and derivative hedging instruments are classified and measured in accordance with the principles of IAS 32, IAS 9 and IFRS 13.

Assets are accounted for when it is probable that an economic benefit will flow to the company in the future and when the acquisition and manufacturing costs or another value can be reliably determined.

Liabilities are accounted for when it is probable that an outflow of resources embodying economic benefit will result from their settlement, and when the settlement amount can be reliably determined.

IFRSs applied for the first time

In financial year 2018, the following new or changed standards/interpretations were to be applied for the first time:

– IFRS 9 "Financial Instruments": The DKB Group has applied the provisions of IFRS 9 since 1 January 2018. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" and contains new provisions for the classification and measurement of financial instruments as well as new regulations for the recognition of impairments of financial assets and optional new regulations for the accounting of hedging relationships (hedge accounting). In addition, the new provisions of IFRS 7 "Financial Instruments: Disclosures", require more comprehensive disclosures in the notes. The effects on DKB's consolidated financial statements are set out in Note 2.

– IFRS 15 "Revenue from Contracts with Customers": The DKB Group implemented IFRS 15 as of 1 January 2018. This standard establishes a comprehensive framework for determining whether, to what extent and when revenue is recognised and replaces the existing revenue recognition guidelines, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes". In addition, the provisions of IFRS 15 require more extensive disclosures in the notes. The effects on DKB's consolidated financial statements are set out in Note 2.

– Changes to two standards were made as part of the annual improvements to the IFRSs/IASs (2014–2016 cycle). IAS 28 "Investments in Associates and Joint Ventures" stipulates that the option to measure an equity interest in an associate or joint venture that is held by a venture capital organisation or other qualifying entity can be exercised differently for each equity interest. In addition, the temporary exceptions to the application of transitional provisions of IFRS 7 "Financial Instruments: Disclosures", IAS 19 "Employee Benefits" and IFRS 10 "Consolidated Financial Statements" were deleted, as these are no longer relevant due to the passage of time. The changes have no impact on the consolidated financial statements of the DKB Group.

Amendments to other standards are also to be applied which, however, have no effect on the consolidated financial statements of DKB.

IFRSs to be applied in the future

IFRS 16 "Leasing" introduces a uniform accounting model, according to which leases are to be recognised in the balance sheet of the lessee. A lessee recognises a right-of-use asset, which represents its right to use the underlying asset, and a debt from the lease, which represents its obligation to make lease payments. There are exceptions for short-term leases and leases for low-value assets. Accounting at the lessor is comparable with the current standard, i.e. the lessor continues to categorise leases as finance or operating leases.

IFRS 16 replaces the existing guidelines on leasing, including IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC-15 "Operating leases – incentives" and SIC-27 "Evaluating the substance of transactions involving the legal form of a lease".

IFRS 16 is to be applied for the first time in financial years starting on or after 1 January 2019. As part of a project, the DKB Group examined the effects of IFRS 16 on the DKB Group in the year under review and created the functional and technical prerequisites for implementing IFRS 16. The DKB Group expects a slight balance sheet increase of around 0.2% due to the capitalisation of rights of use, particularly for owner-occupied property and the recognition of the corresponding lease liabilities as liabilities. The administrative expenses previously reported for rents paid will in future be replaced by the depreciation of capitalised rights of use and interest expenses for leasing liabilities. The resulting impact on the statement of comprehensive income is considered to be minor.

The DKB Group will apply the provisions of IFRS 16 for the first time as at 1 January 2019 using the modified retrospective method.

Furthermore, a range of changes to other standards was decided on, which, however, are not expected to have any significant consequences for the DKB Group.

(2) Changes on the previous year

The changes compared with the previous year result primarily from the first-time application of IFRS 9 and IFRS 15. Furthermore, adjustments were made to the presentation in the consolidated statement of comprehensive income in the reporting year.

The provisions of IFRS 9 were applied retrospectively without adjusting the previous year's figures. In this respect, the information presented for 2017 generally does not meet the requirements of IFRS 9 but those of IAS 39. The judgements required for the first-time application of IFRS 9, such as the determination of the business model, were made on the basis of the facts and circumstances existing at the time of first application.

When transitioning to IFRS 15, the DKB Group applied the modified retrospective method (without simplification rules), according to which the cumulative adjustment amounts are recognised as at 1 January 2018. As a result, the comparative information for 2017 has not been restated, i.e. it has been presented as before in accordance with IAS 18, IAS 11 and the corresponding interpretations. In addition, the disclosure requirements under IFRS 15 were generally not applied to comparative information.

(a) Effects from the first-time application of IFRS 9

The first-time application of IFRS 9 resulted in an effect of EUR –98.5 million, which was recognised directly in equity:

EUR millions	IFRS 9 first-time application effect
Adjustments to carrying amounts	–11.1
Adjustments to valuation allowances	–87.2
Deferred taxes	–0.2
Total	**–98.5**

Reconciliation of carrying amounts
The categories of financial assets have changed as follows compared with IAS 39:

	31 Dec. 2017		1 Jan. 2018	
EUR millions	**IAS 39 category**	**Carrying amount**	**IFRS 9 category**	**Carrying amount**
Cash reserves	LaR	1,742.8	AAC	1,742.8
Loans and advances to banks	LaR	4,601.6	AAC	4,601.6
	LaR	64,539.5	AAC[1]	64,524.8
	LaR	8.8	FVPLM[2]	10.1
Loans and advances to clients	AfS	3.9	FVOCIM	3.9
Assets held for trading	HfT	3.6	FVPLM	3.6
	AfS	5,832.2	FVOCIM	5,832.2
	AfS	175.7	FVPLM[3]	177.5
Financial investments	AfS	20.0	AAC	20.0

[1] The carrying amount adjustments result primarily from the POCI valuation.
[2] The carrying amount adjustments result primarily from the fair value measurement.
[3] The carrying amount adjustments result from the fair value measurement (formerly: application of IAS 39.46 (c)).

For the first-time application, a financial investment with a carrying amount of EUR 20.0 million was reclassified from the IAS 39 AfS category to the IFRS 9 AAC category. The financial asset was measured at amortised cost on 31 December 2017 in accordance with IAS 39.46 (c). Even without reclassification in accordance with the new provisions of IFRS 9, there would therefore have been no other balance sheet recognition as at the balance sheet date or no valuation result to be recognised directly in equity in the reporting period.

The categories of financial liabilities have changed as follows compared with IAS 39:

	31 Dec. 2017		1 Jan. 2018	
EUR millions	**IAS 39 category**	**Carrying amount**	**IFRS 9 category**	**Carrying amount**
Liabilities to banks	LaC	14,381.1	AAC	14,381.1
Liabilities to clients	LaC	53,931.0	AAC	53,931.0
Securitised liabilities	LaC	4,725.1	AAC	4,725.1
Trading liabilities	HfT	22.3	FVPLM	22.3
Subordinated capital	LaC	684.7	AAC	684.7

Reconciliation of valuation allowances

	31 Dec. 2017		1 Jan. 2018	
EUR millions	**IAS 39 category**	**Risk provisions**	**IFRS 9 category**	**Risk provisions**
Loans and advances to banks	LaR	0.0	AAC	0.0
Loans and advances to clients	LaR	356.9	AAC	423.4
Financial investments	AfS	–	FVOCIM	0.3

The change in the risk provision is a result of the inclusion of credit losses expected over the term in Level 2 and from model adjustments due to the changeover to IFRS 9:

EUR millions			
	Risk provision as at 31 Dec. 2017	**Risk provision as at 1 Jan. 2018**	
	46.4	Level 1	42.0
	49.9	Level 2	115.4
Portfolio provisions	2.9	Level 3/POCI	10.1
Specific loan loss provisions	257.7	Level 3/POCI	256.2

Reconciliation of provisions

EUR millions			
	Provisions as at 31 Dec. 2017		Provisions as at 1 Jan. 2018
	1.8	Level 1	5.3
	0.9	Level 2	11.7
	0.0	Level 3	0.2
Portfolio reserves	0.5	IAS 37	0.3
	4.5	Level 3	10.3
Individual transaction provisions	10.8	IAS 37	11.1

The change in provisions is a result of the first-time recognition of revocable loan commitments, the recognition of credit losses expected over the term in Level 2 and from model adjustments due to the changeover to IFRS 9.

(b) Adjustments to the presentation of net interest income

IFRS 9 introduced a subsequent amendment to IAS 1.82 (a), which requires interest income calculated using the effective interest method to be reported separately in the consolidated statement of comprehensive income.

In March 2018, the IFRS Interpretations Committee published an agenda decision on the presentation of revenue in the form of interest. It states that interest income on financial assets in the AAC and FVOCI categories may not be combined with interest income from financial assets in other categories. This also applies to the recognition of negative interest.

The reporting of interest income and expenses by the DKB Group in the reporting period was adjusted accordingly (see Note 28).

(c) Adjustments to the presentation of the risk provision

As a result of the introduction of IFRS 9, the DKB Group has created a new item in the consolidated statement of comprehensive income, namely the item "Risk result" (see Note 29), in order to better reflect the interrelationships of credit-rating-related effects on profit or loss.

The risk result combines the earnings effects of the former item "Risk provision" with the earnings effects of insignificant, creditworthiness-induced modifications and the results from the disposal of financial instruments in the AAC category.

(d) First-time application of IFRS 15

With the introduction of IFRS 15, the principal-agent relationship must be assessed when third parties are involved in the provision of services for clients of the DKB Group. If the reporting company only acts as an intermediary and thus as an agent, the net sales revenue must be recognised in the amount of the commission received in accordance with IFRS 15.B36. Before the first-time application of IFRS 15, commission income and expenses in the DKB Group were reported gross, i.e. not net. From the DKB Group's perspective, there is an agent relationship for insurance benefits and other ancillary benefits in the credit card business. As of 31 December 2018, expenses from the credit card business of EUR 78.1 million were therefore netted against income from the credit card business.

(3) Consolidation principles

In the consolidated financial statements, the parent company DKB and the subsidiaries included in the group of consolidated companies are presented as one economic unit.

The subsidiaries also encompass structured units that are controlled by the DKB Group. Structured units are those units for which voting rights or similar rights are not the dominant factor when determining control. These also include companies whose relevant activities are predetermined by means of a narrow determination of aims in the articles of association or in other contractual agreements or for which a permanent restriction of the decision-making power of the management committee exists. The DKB Group includes the investment fund and the DKB STIFTUNG foundation for corporate responsibility among the structured units. Structured units are included in the group of consolidated companies when they are subsidiaries and are material to the presentation of the net assets and financial position and results of operations of the DKB Group. Details on the type of risks associated with non-consolidated structured units are disclosed in Note 73 "Non-consolidated structured companies".

A subsidiary is deemed to be controlled when the DKB Group is exposed to variable return flows from the commitment with this company or has rights to these and the ability to influence these return flows by means of its decision-making power over the company.

Variable return flows are all return flows that can vary depending on the performance capability of the company. Consequently, return flows from the commitment to another company can be both positive and negative. Variable return flows include dividends, fixed and variable interest, remunerations and fees, fluctuations in the value of the investment and economic advantages.

The assessment as to whether decision-making power exists takes place on the basis of the relevant activities of the company and the DKB Group's powers to exert influence. In this process, both voting rights and other contractual rights to control the relevant activities are taken into consideration, unless economic or other obstacles exist for the exercise of the existing rights. A subsidiary is also controlled by the DKB Group if the decision-making power is exercised by a third party in the interests or on behalf of the DKB Group. Whether such a delegated decision-making power exists is determined on the basis of the existing powers to appoint people to boards and committees, the legal and constructive decision-making leeway and on the commercial incentive structure.

In individual cases, DKB directly or indirectly holds proportions of voting rights in excess of 50% in companies which, due to contractual or legal restrictions, do not bring with them the corresponding controlling influence. In such cases, no control is assumed for the purposes of defining the group of consolidated companies, despite a majority shareholding. Conversely, in individual cases, DKB holds a controlling influence due to contractual rights to influence legal relationships, despite holding fewer than 50% of the voting rights.

Subsidiaries are included in the consolidated financial statements by means of full consolidation. At the time of acquisition, the acquisition costs of the subsidiary are offset against the Group share of the completely newly calculated equity, as part of capital consolidation. This equity is the balance between the assets valued at their respective fair values at the time of initial consolidation and the debts of the acquired company, taking into consideration the deferred taxes as well as discovered hidden reserves and hidden charges. If asset-side differences arise between the higher acquisition costs and the proportionate, newly calculated equity, these are disclosed in the balance sheet as goodwill under intangible assets. Any negative, remaining difference is accepted, recognised through profit or loss, at the time of acquisition.

Within the framework of debt and profit consolidation and the elimination of the interim results, all receivables and liabilities, income and expenses, as well as interim results from Group-internal transactions, are eliminated unless they are of subordinate significance.

Shares in subsidiaries, which, due to their subordinate significance for the net assets and financial position and results of operations of the DKB Group, are not consolidated, are accounted for in accordance with the recognition and measurement provisions of IFRS 9 as financial instruments of the FVPLM category.

Joint arrangements are based on contractual agreements, on the basis of which two or more partners can establish a commercial activity which is subject to joint management. Joint management exists when the partners must work together to manage the relevant activities of the joint arrangement and when decisions require the unanimous agreement of the partners involved. Such a joint arrangement is a joint venture when the partners who exercise the joint management have rights and obligations with respect to the net assets of the arrangement. If, on the other hand, the partners have direct rights to assets attributable to the joint arrangement or obligations for their debts, the arrangement is deemed to be a joint operation.

Associates are companies over which DKB can exercise, directly or indirectly, a significant influence but not a controlling influence. A significant influence is deemed the ability to cooperate in the financial and operational policy decisions of another company, without controlling it, however. Significant influence is deemed, in principle, to exist when DKB as an investor directly or indirectly holds 20% or more of the voting rights. A company can also be deemed to be an associate if DKB directly or indirectly holds less than 20% of the voting rights, but, due to other factors, is able to cooperate in the financial and operational policy decisions of the company. This includes, in particular, the representation of the DKB Group in the decision-making body of the company, as well as contractual rights to the management or exploitation of assets, including investment decisions.

In individual cases, DKB directly or indirectly holds shares of the voting rights of at least 20% in companies, which due to contractual or legal restrictions do not bring with them the corresponding significant influence. In such cases, no significant influence exists for the purposes of defining the group of consolidated companies.

There are currently no material joint ventures or associates included in accordance with the equity method. Shares in joint ventures or associates, which, due to their subordinate significance for the net assets and financial position and results of operations of the DKB Group, are not included in the consolidated financial statements in accordance with the equity method, are accounted for in accordance with the recognition and measurement provisions of IFRS 9 as financial instruments of the FVPLM category and reported under financial investments.

4) Scope of consolidation

As in the previous year, six subsidiaries are included along with DKB in the consolidated financial statements as at 31 December 2018. DKB directly or indirectly holds a 100% capital participation in the consolidated subsidiaries. As at the reporting date, there were no non-controlling interests. The group of fully consolidated companies was determined in accordance with materiality criteria. Companies measured in accordance with the equity method are not included in the consolidated financial statements.

A complete overview of the subsidiaries included in the consolidated financial statements is provided in the shareholding list (see also Note 75 “Shareholding“).

5) Currency translation

On first recognition, all assets and debts in foreign currencies are translated into the functional currency at the spot rate valid on the relevant day of the transaction. In the following periods, a differentiation will be drawn between monetary and non-monetary items for currency translation. Monetary assets and debts denominated in foreign currencies are translated at the rate on the balance sheet reporting day. Non-monetary assets and debts in foreign currencies are not included in the consolidated financial statements. Profits and losses arising from the currency translation are recognised in profit and loss.

Specific accounting and measurement methods

(6) Financial instruments

Recognition and measurement

A financial instrument is a contract which simultaneously leads to the creation of a financial asset for one company and to the creation of a financial liability or an equity instrument for another. Financial instruments are recognised in the accounts as of the date from which the company drawing up the accounts becomes party to the contract and is entitled/obliged to perform/render the agreed services/considerations. In this process, purchases or sales of securities are recognised as at the trading day. The other financial instruments are accounted for as at the settlement date.

A financial asset or financial liability is first recognised in the initial measurement at fair value. Financial instruments, which are accounted for at amortised acquisition costs, are measured taking into consideration transaction costs directly attributable to the acquisition of the financial instrument. For financial instruments that are recognised at fair value in the subsequent measurement, there is an immediate recognition of the transaction costs through profit or loss.

The subsequent measurement of financial instruments is based on their assignment to certain measurement categories. IFRS 9 classifies financial assets using the respective business model for managing financial assets and the contractually agreed repayment and interest payment terms.

IFRS 9 distinguishes between the following business models:

– The objective of the “hold“ business model is to hold financial assets to collect the contractual cash flows.

– The objective of the “hold and sell“ business model is to collect the contractual cash flows and sell the financial assets.

– Financial assets held for trading or those not meeting the criteria of the two business models mentioned above are allocated to a residual business model.

The business model underlying the loan portfolio of the DKB Group is derived from the business strategy as well as the client group and functional strategies. These are determined by the Management Board as part of the strategy process. The aim of the DKB Group is to enter into long-term and valuable client relationships. This strategic orientation is also reflected in the risk strategy and multi-year planning of the DKB Group. Against this background, the loan portfolio of the DKB Group was largely allocated to the “hold“ business model. Sales from the loan portfolio are unusual in the DKB Group. The bank has adopted regulations which, under certain conditions, permit a harmless sale from the “hold“ business model. The regulations take into account the occasion (above all the sale due to the client’s credit rating or due to exceptional circumstances or to averting a loss for DKB) as well as the effects (above all measured by the gross book value of the sold transactions in relation to the total gross book value or the disposal result in relation to the total gross interest income/expense of the respective segment) of possible sales.

The securities held by the DKB Group primarily serve to secure liquidity as part of liquidity management in accordance with regulatory requirements and the Group’s strategic objectives. They are part of a business strategy, the objective of which is to hold securities in order to collect their contractual cash flows. As part of the liquidity and earnings management, sales are also carried out on an ad-hoc basis. As a result, the securities of the DKB Group were allocated to the “hold and sell“ business model.

In the case of financial instruments of the “hold“ and “hold and sell“ business models, the extent to which the contractual terms of the financial asset result in cash flows that represent only principal and interest payments on the outstanding capital amount (SPPI-neutral) must be assessed upon addition of the financial asset.

The lending business of the DKB Group is based on loan agreements that exclusively contain terms and conditions that result in repayments and interest payments on the outstanding principal amount.

The securities portfolio of the DKB Group exclusively comprises repayments of principal and interest on the outstanding principal amount.

In accordance with IFRS 9, a financial asset

- is to be allocated to the category "at amortised cost" (AAC category) if it is subject to the "hold" business model and is SPPI-neutral; in this case, they are measured at amortised cost;

- is to be allocated to the category "fair value through other comprehensive income mandatory" (FVOCIM category) if it is subject to the "hold and sell" business model and is SPPI-neutral; in this case, they are measured at fair value with no effect on income;

- is to be allocated to the category "fair value through profit and loss mandatory" (FVPLM category) if it is subject to the residual business model or if it is harmful to SPPI. In addition, equity instruments and derivatives are also assigned to this category. In this case, the fair value is measured through profit or loss.

IFRS 9 also permits, under certain conditions, the voluntary allocation of financial assets to the two fair value categories (designation). Accordingly, financial instruments can also be allocated to the categories "fair value through other comprehensive income designated" (FVOCID category) and "fair value through profit and loss designated" (FVPLD category). The DKB Group does not designate any such assets.

Financial instruments in the AAC and FVOCIM categories with impaired creditworthiness at the time of acquisition are classified as "purchased or originated credit-impaired financial assets" (POCI) in accordance with IFRS 9. Subsequent measurement is based on a credit-risk-adjusted effective interest rate (CAEIR) at amortised cost or at fair value through profit or loss.

The adjustments to the recognition and measurement of financial liabilities under IFRS 9 have no material impact on the DKB Group. The financial liabilities "at amortised cost" (AAC category) include financial instruments that are not held for trading and for which the fair value option is not applied. They are measured at amortised cost. Premiums and discounts are amortised through profits in the net interest income.

Amendments

For contract amendments to financial assets and financial liabilities that change the contractual cash flows but are not significant enough to result in derecognition, the gross carrying amount of the financial instrument is recalculated by discounting the amended contractual payments at the original effective interest rate or the credit-risk-adjusted effective interest rate (non-significant amendment). Any resulting amendment result is recognised in net interest income (for Level 1 receivables) or in net risk income (for Level 2 or Level 3 receivables or POCI receivables). In subsequent accounting, the recognised amendment result is amortised over the remaining term of the financial instrument. Amortisation is reported under net interest income.

If the contractual rights to cash flows are amended so that they are de facto deemed to have expired or lapsed, the financial instrument is derecognised and the amended financial instrument is booked (significant amendment). The DKB Group identifies such a significant modification on the basis of qualitative factors such as debtor or product changes or a change in the present value of the contractual rights to cash flows of at least 10%. Any resulting income or expense is recognised in profit or loss in the risk result. In subsequent accounting, the amortised cost of the significantly amended financial instruments is amortised over their remaining term via net interest income.

Determination of fair value

According to IFRS 13, the fair value of an asset is the amount at which an asset can be sold between knowledgeable, willing business partners independent of each other. The fair value thus corresponds to a sales price.

For liabilities, the fair value is defined as the price at which the debt could be transferred to a third party within the framework of a normal transaction. In addition, the bank's own default risk must be taken into consideration when measuring debts.

The relevant market for determining the fair value is, in principle, the market with the highest level of activity to which the DKB Group has access (main market). If there is no main market, the most advantageous market is used. To determine the fair value, the quoted market price (adopted unchanged) for an identical instrument in an active market is used, where possible (Level 1). If no quoted prices are available, the fair value is determined using measurement methods, the measurement parameters of which are directly (as prices) or indirectly (derived from prices) observable and do not fall under Level 1. This can include quoted prices in active markets for similar financial instruments, quoted prices in inactive markets, other observable input parameters (such as interest rates and exchange rates) or market-supported input factors. The objective here is to determine the price at which a normal transaction could take place among market participants at the measurement date under current market conditions.

To identify whether there is an active market, the DKB Group examines the extent to which tradable prices are present in the Bloomberg BondTrader trading system, such that it can be assumed that business transactions occur at a sufficient frequency and in sufficient volumes so as to enable the continuous availability of price information.

In the DKB Group, recognised measurement models are used, which are essentially based on observable market data. The measurement models encompass the discounted cash flow method and the option price models.

The discounted cash flow method is used for interest-bearing financial instruments, unless there is a price observable in the market for an identical or comparable financial instrument. In this process, measurement takes place on the basis of the cash flow structure, taking into consideration nominal values, residual maturities and agreed interest payment methods. For financial instruments with contractually fixed cash flows, the agreed cash flows are used to determine the cash flow structure. For variable interest rate instruments or components of instruments, cash flow is determined using forward curves. Discounting takes place using yield curves with matching currencies and maturities and a risk-adequate spread. For publicly available spreads, the data observable on the market is used. This relates to OtC derivatives such as interest rate swaps and forward exchange transactions.

Interest options are measured using the option price models.

For OtC derivatives, the counterparty default risk, the bank's own default risk and the liquidity costs are all taken into consideration.

The fair values of receivables acquired on the non-performing loan market and secured with real estate are determined via the discounting of the recovery value of the relevant collateral over the estimated use period with a risk-adjusted interest rate.

The collateral is measured, in principle, from capitalised earnings value perspectives, predominantly in combination with a review of the value against benchmark values. Observable market parameters (bid prices for other properties) are also used as benchmarks to determine the recovery values, as is information from previous transactions. The provisional recovery period is determined in accordance with the forecast period required to establish delivery capability (depending on the form of recovery, such as foreclosure), plus the period to be calculated for the sale following the assessment of the relevant market situation. In some cases, experience from past transactions is also factored into the assessment of the recovery time (for example, the period between foreclosure acceptance and the time the money is received). Discounting takes place using the risk-free yield curve and a risk-adequate spread.

The fair values of financial instruments measured in the balance sheet at amortised acquisition costs are determined using the discounted cash flow method. For lending transactions, the credit-risk-adjusted cash flow is discounted using the risk-free yield curve, which has been adjusted by a transaction-specific spread. In addition to a margin to cover costs and profit expectations, this spread includes a premium that the bank pays for its own borrowing on the capital market. In the case of liability transactions, cash flows are discounted using the risk-free yield curve and a liquidity spread that reflects the current creditworthiness of DKB AG.

The input parameters used in the measurement models determine the level to which the financial instrument is assigned in the fair value hierarchy.

The measurement models presented are used for the HfT financial instruments recognised in the balance sheet at fair value and affect the balance sheet items, assets held for trading, positive market values from derivative financial instruments (hedge accounting), liabilities held for trading and negative market values from derivative financial instruments (hedge accounting).

Hedge accounting

The provisions on macro hedge accounting used by the DKB Group have been excluded from IFRS 9. For this reason, IFRS 9 includes options for the further application of the rules for hedge accounting in accordance with IAS 39. The DKB Group uses the option of continuing to account for hedging relationships in accordance with IAS 39.

Hedge accounting in the DKB Group is based on risk management decisions to manage the interest rate risks of DKB AG. Further information on the risk strategy and on the management and monitoring of the interest rate risk can be found in the risk report in the Group management report.

As part of interest rate risk management, derivative financial instruments are used to hedge recognised financial assets. The hedging relationships that qualify for hedge accounting within the meaning of IAS 39 are currently exclusively fair value hedges. In this process, a recognised financial asset can be protected against changes in the fair value that arise from the interest rate risk and could have consequences for the result for the period. The DKB Group uses the portfolio hedge in the broader sense to secure the fixed interest rate position from the client loans business.

Within the framework of portfolio hedges in the broader sense, the interest rate risk is managed by the use of interest rate swaps. Calendar time buckets are defined for the portfolio, to which the expected payment flows (interest and repayments) from the receivables are assigned. Thus, the corresponding (partial) cash flows of a portfolio of underlying transactions are assigned to each time bucket. The hedging transactions are assigned to the time buckets in accordance with their due date. After the assignment of the underlying and hedging transactions, the proportion of each underlying transaction that is to be included in the hedging relationship of the time bucket (hedge ratio) is stipulated. When determining the hedge ratio, the terms of the underlying transactions and hedging transactions are taken into account in such a way that interest rate sensitivities are calculated for both sides and compared with each other. The interest rate swaps are fully designated as hedging transactions. The hedge ratio is held constant until the end of the hedging period and is the basis for prospective and retrospective effectiveness tests. The effectiveness is measured monthly per time bucket.

A high level of effectiveness is required here, whereby changes in the fair value of a secured underlying transaction are compensated with respect to the secured risk and hedging derivative in a bandwidth of 80% to 125%. If the effectiveness of the hedging relationship is outside this range, the hedge is ineffective and must be dissolved at the time of the last proven effectiveness.

Possible causes of hedge ineffectiveness during the term are the following:

- value fluctuations of the variable side of the hedging instruments, especially in the last interest period or after the last interest rate fixing;
- multi-curve effects resulting from the measurement of the underlying transaction and hedging instrument with different yield curves, and;
- differences between expected and actual payments, for example due to unscheduled repayments of the underlying transactions.

A dynamic hedge strategy is used as part of the portfolio hedge in the broader sense. The predefined hedge period is one month. At the end of this period, the respective hedges are recompiled or adjusted, whereby the adjustment is made primarily on the basis of the varying underlying transaction side. Re-designations and de-designations of hedging instruments take place during the month, in line with the representation of the hedging relationships in risk management. The hedge strategy is documented during designation of the hedging relationship.

Interest rate swaps are measured at fair value; any resulting changes in value are recognised in the income statement under net income from hedge accounting. The hedging instruments are reported in the balance sheet item "Positive fair values from derivative financial instruments (hedge accounting)" or "Negative fair values from derivative financial instruments (hedge accounting)".

The book values of the underlying transactions are adjusted through profit or loss by the measurement results which can be traced back to the hedged risk. The adjustment takes place in the balance sheet item "Portfolio hedge adjustment attributable to assets". The measurement results are shown in the result of the hedge transactions (hedge accounting).

Derivative financial instruments in commercial hedge relationships that do not fulfil the prerequisites for hedge accounting according to IAS 39 are recognised in the assets or liabilities held for trading and measured at fair value. The current income and expenses are shown in the net interest income and the measurement result is shown in the result of the fair value measurement.

Further information on the development of derivative transactions and hedging relationships (hedge accounting) in the year under review can be found in Note 58.

Derecognition

Financial assets are derecognised when the contractual rights to cash flow from the relevant assets have expired or when the Group has substantially transferred all opportunities and risks.

Financial liabilities are derecognised when the contractual obligations have been discharged, set aside or have expired.

Offsetting

Financial assets and financial liabilities are offset, if, at the current time, a legal enforceable right to offset the recognised amounts against one another exists and the intention is to settle on a net basis, or to realise an asset and settle the liability simultaneously.

(7) Cash reserve

The cash reserve encompasses the cash in hand as well as credit balances with central banks. The cash reserve is allocated to the "hold" business model. There are no SPPI-harming agreements. They are recognised at nominal value on the basis of the AAC category.

(8) Loans and advances to banks and clients

The loans and advances to banks and clients are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and are not held for trading purposes.

Loans and advances to banks and clients are largely allocated to the "hold" business model and have no SPPI-harming contractual components. Most of them are therefore in the AAC category. Premiums and discounts are distributed over the term in accordance with the effective interest method and included through profit or loss in the net interest income.

Due to the "hold and sell" business model, a small portion of receivables is allocated to the FVOCIM category and measured at fair value with no effect on income. The interest-rate-induced measurement result is recognised in the revaluation reserve. Credit-rating-related fair value adjustments are recognised in the income statement under provisions for losses on loans and advances in the statement of comprehensive income.

A further small portion of receivables is allocated to the FVPLM category due to SPPI-harming contractual agreements and measured at fair value through profit or loss. The measurement result is reported under the result from fair value measurement in the statement of comprehensive income.

Loans and advances to banks and clients also include financial instruments with a credit rating impaired at the time of acquisition (POCI).

(9) Impairments

The provisions of IFRS 9 on the recognition of impairment losses on financial assets relate to AAC and FVOCI financial instruments as well as financial guarantees and loan commitments.

Impairments due to changes in creditworthiness are shown in the balance sheet as follows:

- AAC-category receivables: reported under the asset item risk provisioning;
- FVOCIM-category receivables: reported within equity and liabilities, and;
- financial guarantees and loan commitments: reported under provisions for possible loan losses.

Expenses for additions to loan loss provisions, income from the reversal of loan loss provisions and recoveries on loans written off are shown in the risk result in the statement of comprehensive income.

With the introduction of IFRS 9, an adjustment was made from an incurred loss model in accordance with IAS 39 to an expected credit loss model.

The impairment model of IFRS 9 provides for the following three levels that reflect the development of the credit quality of a financial asset:

- Level 1: If a financial instrument is acquired and there is no significant increase in credit risk or no impaired creditworthiness ("credit-impaired"), the valuation allowances are measured at the amount of the expected twelve-month credit loss. In the DKB Group, valuation adjustments are calculated using parameter-based models.

- Level 2: In the event of a significant increase in credit risk since addition, but in the absence of an impaired credit rating, the valuation allowances are measured at the amount of the credit losses expected over the term. In the DKB Group, valuation adjustments are calculated using parameter-based models.

  A significant increase in credit risk in the DKB Group is determined using a relative transfer criterion. The relative transfer criterion is based on the comparison of the rating of a financial instrument at the measurement date with its rating at the acquisition date. If a certain significance limit is exceeded as a result of the comparison, the credit risk of the financial instrument is deemed to have increased significantly. The significance limits are set for each rating sub-module, acquisition rating and the past term of the financial instrument. To determine the significance limit, each financial instrument is assigned an expected development of the probability of default (PD profile). Based on this expected normal migration behaviour of the financial instrument, a tolerance range is generated within which an increase in credit risk is not considered significant. The tolerance range is calculated on the basis of the one-year migration matrix valid for the financial instrument at the time of acquisition. The significance limit for each point in time is the sum of the expected PD profile and the defined tolerance limits. If the rating valid on the measurement date exceeds the significance limit valid for this date, the credit risk of the financial instrument is deemed to have increased significantly.

In addition to the relative transfer criterion, an assignment is made to Level 2 if there is a payment delay of more than 30 days.

A reclassification of a financial instrument from Level 2 to Level 1 is made if, at the balance sheet date, the default risk is no longer significantly higher compared to initial recognition and there is no more than 30 days' delay in payment. The procedure with regard to transfer between levels applies analogously to non-significantly amended financial instruments.

– Level 3: In the case of a financial asset the creditworthiness of which is impaired as of the balance sheet date, the valuation adjustments are measured in the amount of the credit losses expected over the term. The DKB Group distinguishes between significant and insignificant receivables when determining the valuation adjustment. For individual loan commitments with a gross exposure of over EUR 750 thousand (significant receivables), risk provisions are calculated on the basis of expert estimates of expected recoveries, taking into account at least two possible scenarios and their probability of occurrence (discounted cash flow method). For non-significant receivables (with a maximum gross exposure of EUR 750 thousand), risk provisions are calculated using parameter-based models.

  The DKB Group considers the creditworthiness of a loan exposure to be impaired as soon as the DKB Group has to assume that the debtor will not meet its credit obligations. The DKB Group has defined the following indicators (impairment triggers):

  – significant financial difficulties of the debtor;

  – breaches of contract such as interest or principal defaults or default;

  – granting of (contractual) concessions to a debtor, such as deferrals, restructurings or waivers of claims,

  – possible insolvency or financial reorganisation of the debtor;

  – the disappearance of an active market for the financial asset due to financial difficulties of the debtor, and;

  – purchase of a financial asset at a high discount (deep discount) due to credit defaults.

  In addition to these indicators, a credit exposure is considered impaired if contractually agreed payments of a significant amount are more than 90 days past due.

  These criteria are also used for internal credit risk management and are based on the regulatory definition of a defaulted loan pursuant to Art. 178 (1) CRR.

  As soon as the default criterion is no longer met, the financial instrument is reassigned to Level 1 or 2. The allocation to Level 1 is made if the default risk is no longer significantly increased compared to the initial recognition on the balance sheet date. The procedure with regard to transfer between levels applies analogously to non-significantly amended financial instruments.

In the case of financial instruments with a credit rating impaired at the time of initial recognition (POCI), impairment losses are recognised for changes in expected credit losses over the term of the instrument since initial recognition. The risk-adjusted effective interest rate (CAEIR) is used as the discount rate when calculating expected credit losses.

When parameter-based models are used, the credit loss expected over the term is the sum of the individual expected period losses. The respective period losses result from the following key parameters:

– probability of default (PD);

– loss given default (LGD), and;

– exposure at default (EaD).

One-year PDs are used to calculate the expected twelve-month credit loss in Level 1 and the level demarcation. The DKB Group primarily uses the models of Sparkassen Rating und Risikosysteme GmbH (SR) and Rating Service Unit GmbH & Co. KG (RSU). Lifetime PDs are also relevant for determining the credit loss expected over the term in Level 2. For this purpose, PD profiles are made available to the DKB Group by SR and RSU. The PD profiles for RSU and SR are derived on the basis of historically observed information. No external default data is included in the determination of PD profiles. In addition, the bank's own expert estimates are used to a limited extent.

In addition to its own models, the DKB Group also uses RSU's LGD model to determine the LGDs. The models are based on historical portfolio data, taking into account macroeconomic factors (such as market price time series to reflect the performance of collateral).

The EaDs are derived from the expected cash flows of the respective financial instrument. In addition to contractually agreed cash flow factors, such as contractual rights for the client to terminate or extend the original term of the contract or the right to make unscheduled repayments, assumptions about the drawing behaviour of clients for products with an unused portion of the commitment are also taken into account. A credit conversion factor (CCF) is also used to calculate the EaDs for off-balance-sheet commitments.

The parameters used by DKB are regularly validated and quality assured by our own proofs of representativeness.

Future-oriented information is taken into account when calculating the expected credit loss. For each individual financial instrument, forward-looking information – provided it has a relevant impact on the respective financial instrument or the associated client – is first included in the determination of the various credit risk parameters (in particular PD and LGD). This also applies to relevant macroeconomic variables such as the expected development of interest rates and the inflation rate, as well as future developments in the respective market (such as purchase price and rental price developments). For LGDs, forward-looking macroeconomic scenarios are also taken into account in order to reflect long-term price and value developments. In addition, prior to the balance sheet date, the long-term expected PD development determined at the level of the financial instruments and aggregated at the (sub-)portfolio level is compared with corresponding PD developments simulated on the basis of various macroeconomic scenarios for upcoming years. In the event of a relevant deviation within one or more (sub-)portfolios, the resulting effects on the expected credit loss are approximated and taken into account.

The DKB Group's securities portfolio is primarily used for liquidity management and exclusively comprises securities with investment grade ratings. Due to this low risk of default, the option under IFRS 9 to waive the assessment of a significant increase in the default risk is used here as long as the security remains in the investment grade range.

The expected credit loss is discounted using the original effective interest rate or an approximation thereof.

Depreciations are performed, when, based on the current information, the conviction exists that all possible commercially reasonable measures to limit the loss have been taken. This is done, in principle, by writing off formed risk provisions. If no sufficient risk provision was created, this is done via direct depreciation.

(10) Portfolio hedge adjustment attributable to assets

In this balance sheet item, the book value adjustments for the underlying transactions designated in hedge accounting that are attributable to the hedged interest rate risk are recognised. The designated underlying transactions continue to be reported at amortised acquisition costs in the loans and advances to clients.

(11) Assets held for trading

Assets held for trading include only those derivative financial instruments with positive market values concluded for hedging purposes which are not designated as hedging instruments within the framework of hedge accounting in accordance with IAS 39. Measurement is at fair value in accordance with the FVPLM category.

(12) Positive fair values from derivative financial instruments (hedge accounting)

This balance sheet item contains derivative financial instruments (interest rate swaps) with positive market values that are included in hedge accounting within the meaning of IAS 39. The derivative instruments (FVPLM category) are measured at fair value. The fair value changes in the hedging instruments are reported together with the fair value changes in the underlying transactions that result from the interest rate risk, under gains/losses on hedging transactions (hedge accounting).

(13) Financial investments

Financial investments consist mainly of debt securities and other fixed-income securities that are part of the "hold and sell" business model and do not have SPPI-harming characteristics. The bonds and other fixed-income securities are therefore categorised as FVOCIM. The interest rate-induced measurement result is recognised in the revaluation reserve. Credit-rating-related fair value adjustments are recognised in the income statement under provisions for losses on loans and advances in the statement of comprehensive income. Premiums and discounts are amortised through profit or loss in the net interest income.

In addition, fund units that are categorised as FVPLM due to their SPPI-harmfulness are reported under financial investments. Other financial investments are also allocated to the FVPLM category if they relate to equity investments in companies. The measurement result is reported under the result from fair value measurement in the statement of comprehensive income. Other financial investments representing liabilities are allocated to the AAC category.

(14) Securities lending and repurchase transactions

Securities borrowed through securities lending transactions or purchased through repurchase transactions are not recognised in the accounts in accordance with the accounting practice view that the commercial ownership of the securities remains with the lender/repo seller. Loaned or sold securities are posted in the securities portfolio and measured in line with the assigned portfolio. Income and expenses resulting from securities lending transactions are taken into consideration in the statement of income under the net commission income.

As at the balance sheet reporting day, the DKB Group has not concluded any securities lending transactions.

(15) Property, plant and equipment

Property, plant and equipment encompasses owner-occupied land and buildings, as well as operating and business equipment.

Initial recognition is at cost.

It is measured at amortised acquisition or manufacturing costs, i.e. the acquisition and manufacturing costs are reduced, in the case of depreciable assets, by scheduled, linear depreciations in accordance with their useful life. In the case of buildings, the components are depreciated over their specific useful lives (component approach).

If an impairment arises, this is recognised as an impairment expense. If the reasons for the impairment no longer apply, attributions are made up to the amount of the amortised acquisition and manufacturing costs maximum.

Subsequently incurred acquisition or manufacturing costs are recognised as assets if they increase the commercial benefit of the property, plant and equipment. Maintenance costs are recognised in the relevant financial year as an expense. Likewise, acquisitions of low-value items are immediately recognised as expenses.

Depreciation on property, plant and equipment is reported under administrative expenses. Attributions are shown in other income and expenses.

(16) Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance, which is used to provide services or for administrative purposes. These primarily include licences and purchased software.

Acquired intangible assets are initially recognised at their acquisition cost.

Intangible assets are subject to straight-line depreciation over their useful lives. Non-scheduled depreciation is carried out if there is an impairment or if an inflow of future economic benefits is no longer expected. Write-ups are made if the reasons for impairment no longer apply, up to a maximum of amortised cost.

Depreciations and impairments are posted in administrative expenses. Attributions are shown in other income and expenses.

(17) Other assets

Assets that cannot be assigned to any of the other asset items are posted under other assets. These include prepaid expenses and deferred income and real estate held as inventories.

(18) Liabilities

Bank loans and overdrafts and liabilities to clients, as well as securitised liabilities, are accounted for at amortised acquisition costs (AAC category). Premiums and discounts are distributed over the term in accordance with the effective interest method and included through profit or loss in the net interest income.

(19) Liabilities held for trading

Liabilities held for trading include only those derivative financial instruments with negative market values concluded for hedging purposes, which are not designated as hedging instruments within the framework of hedge accounting in accordance with IAS 39. Measurement is at fair value in accordance with the FVPLM category.

(20) Negative fair values from derivative financial instruments (hedge accounting)

This balance sheet item contains derivative financial instruments (interest rate swaps) with negative market values that are included in hedge accounting within the meaning of IAS 39. The derivative instruments (FVPLM category) are measured at fair value. The fair value changes in the hedging instruments are reported together with the fair value changes in the underlying transactions that result from the interest rate risk, under gains/losses on hedging transactions (hedge accounting).

(21) Provisions

Provisions are formed for current legal or constructive obligations arising from an event in the past that will probably lead to an outflow of resources embodying economic benefits. It must be possible to make a reliable estimate of the amount of the outflow of resources. Provisions with a term of more than one year are discounted at a stipulated Group-standard interest rate that complies with the regulations of IAS 37.47.

Where the possibility of an outflow of resources on fulfilment is not unlikely (likelihood of occurrence less than 50%), we refer to the notes on contingent liabilities (Note 53 "Contingent liabilities and other obligations").

Provisions for pension obligations and long-term employee benefits

The defined-benefit obligations of the DKB Group essentially encompass final salary agreements and plans based on capital modules that guarantee the employees lifelong pensions or capital payments.

The pension scheme in the Group comprises the following pension plans:

Pension scheme I (employees with a start date prior to 2 April 1995) provides entitlements to lifelong pension payments for those employees who are no longer actively employed.

Employees with a start date from 2 April 1995 and actively employed employees with a start date prior to 2 April 1995 receive an age-dependent modular plan as a capital commitment within the framework of pension scheme II. The sum total of the capital modules acquired in the individual calendar years yields the pension capital, which is converted into a capital payment when benefits become due.

Furthermore, final-salary-dependent commitments exist to provide lifelong pension payments for members of the Board of Management.

Moreover, an employee-funded benefit plan exists for the employees of the DKB Group. This plan gives employees the opportunity to convert parts of their remuneration claims into pension capital. The pension benefit consists of a capital payment upon reaching the age limit or, if applicable, at an earlier date due to disability or death. Interest is paid on the pension capital at a rate of 3.5% p. a.

Pension obligations and long-term employee benefits (partial retirement plan) are determined using an actuarial expert report issued by Mercer Deutschland GmbH (Mercer). The direct benefit-oriented pension obligations are measured, whereby the existing plan assets are compared with these obligations. The calculation is performed using the projected unit credit method.

The following assumptions underlie the calculation:

Actuarial interest rate	2.0% (previous year: 1.9%)
Duration	15.2 years (previous year: 15.5 years)
Salary trend [1]	2.5% (previous year: 2.25%)
Pension progression	2.0% (previous year: 2.0%)
Retirement age	63 years of age (previous year: 63 years of age)
Staff turnover	2.5% (previous year: 2.0%)
Calculation base	"2018 G actuarial tables" of Prof. Klaus Heubeck

[1] in 2018 including career progression; in the previous year: career progression: 1.9%

When defining the actuarial interest rate, the DKB Group uses the interest rate recommended by Mercer. Mercer uses the Mercer Pension Discount Yield Curve Approach.

Effects from the revaluation of defined-benefit pension plans, such as actuarial profits and losses from the pension obligation and the plan assets, which occur due to the difference between the expected and actual values or due to changed assumptions, are recognised in the period in which they occur, without an impact on profit or loss, in other income and expenses, and are reported as part of retained earnings in the balance sheet capital and analogously in the pension reserves. A past service cost resulting from a retroactive plan change is recognised in staff costs.

The DKB Group has not covered its pension obligations with plan assets. The financing status thus corresponds completely to the pension obligation value.

The risks associated with the defined-benefit obligations are the customary actuarial risks, particularly:

- Inflation risks: possible inflation risks, which could lead to an increase in defined-benefit obligations, exist insofar as some of the plans are final-salary plans or the annual capital modules are directly tied to salaries.
- Interest change risks: the amount of the net obligation is materially influenced by the level of the discounting interest rates.

Provisions in the credit business

For contingent liabilities and other obligations for which a default risk exists, provisions are formed in the lending business at the level of the individual transaction as well as at portfolio level.

Provisions for legal expenses

The provisions for legal expenses essentially include the provision for litigation risks that have arisen in the lending business in the retail clients segment from the development of jurisprudence in this area in recent years.

The formation of such provisions can itself be subject to the risk of incorrect estimations. This can relate both to the estimation of the prospects of success and to the amount of legal expenses incurred (risk of over/underestimation), while the level of the respective risks in this method can generally be quite accurately assessed.

The provision is formed and amount determined, taking into consideration a qualified estimate, both in relation to the prospects of success and in relation to the provisional legal expenses and litigation risks, whereby the estimate is performed individually for each proceeding.

In order to minimise potential estimate risks, the estimates issued are regularly reviewed and adjusted based on already received information.

(22) Other liabilities

Other liabilities includes deferred income, and accrued expenses and other obligations, as well as deferred debts.

(23) Subordinated capital

Subordinate promissory note loans and other subordinate loans, as well as the participation certificates issued by the DKB Group, are reported under subordinate capital. The entire portfolio is assigned to the AAC category.

The subordinate capital is accounted for at amortised acquisition costs. Premiums and discounts are distributed over the term in accordance with the effective interest method and recognised through profit or loss in the net interest income.

(24) Leasing transactions

In accordance with IAS 17, leases are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

Currently there are no operating or finance leasing contracts for which the DKB Group acts as the lessor.

The lease payments that the DKB Group must pay as lessee within the framework of operating leases are recognised in administrative expenses. Currently there are no finance leasing contracts for which the DKB Group acts as the lessee.

(25) Revenue from contracts with clients

The DKB Group generates income from contracts with clients from a wide range of services. Revenue from time-based service obligations is recognised when the service is rendered. Time-based benefit obligations are recognised in accordance with the stage of completion. This is determined using the contractual basis, according to which a uniform stage of completion is generally achieved over the period of performance. The amount of revenue recognised corresponds to the consideration contractually agreed by the client for the transfer of the services. As a rule, the promised consideration can be clearly allocated to the individual performance obligations contained in the contract.

The DKB Group generates commissions and fees primarily from the following services:

- In the credit card business, income from the issue of credit cards and services associated with credit cards is recognised. The DKB Group charges both time-based fees, such as interchange fees, foreign deployment fees and cash service fees, as well as period-based fees, such as cardholder fees. The DKB Group acts in part as an agent for the brokerage of insurance benefits and other ancillary services in the credit card business. In these cases, the revenues are netted.
- In the lending business, proceeds are primarily received from the provision of guarantee credits and from the processing and administration of loans. To the extent that the fees in the lending business are not subject to the provisions of IFRS 9, processing and brokerage fees are recognised on a time-related basis and income from recurring services, such as the provision of guarantees, is recognised on a period-related basis.
- In payment transactions, income is mainly recognised from account management, the processing of bank transfers and the collection and redemption of direct debits. Account management fees are shown periodically, payment transaction services for a given date.

Revenues from contracts with clients represent commission income and are presented in Note 30.

The commissions and fees received by the DKB Group within the framework of IFRS 15 are either time-based or have a maximum performance period of one year. Disclosures on the transaction prices of remaining performance obligations in accordance with IFRS 15.120 are therefore not required due to IFRS 15.121 (a).

Costs incurred in initiating contracts are not capitalised by the DKB Group, but recognised as an expense in accordance with IFRS 15.94.

(26) Taxes

Actual (current) income tax assets and liabilities were calculated at the currently valid tax rates. Income tax receivables or liabilities are recognised to the extent that a remuneration or a payment is to be expected.

Deferred income tax assets and liabilities result from different, temporary valuations of a recognised asset or obligation and the actual tax value. Provisional income tax burden and relief effects will result from this in the future. These were measured for every company included in the consolidated financial statements at the respective applicable income tax rates, the validity of which is expected to remain for the period of the reversal of the temporary differences on the basis of tax laws already in force or which have already been adopted.

Deferred tax assets on existing tax loss carryforwards and deductible temporary differences are only recognised insofar as it is probable in the future that sufficient taxable profits will be generated to be able to use these tax benefits. Where, for Group companies that generated a tax loss in the current or previous financial year, the loss carryforwards and deductible temporary differences exceed the taxable temporary differences, the amount of recognised deferred tax assets was determined on the basis of a tax forecast for the respective company or – if a fiscal unit exists – for the respective controlling company.

There is no discounting of deferred taxes. Deferred income tax assets and liabilities are formed and amortised through profit and loss if the underlying issue was handled through profit or loss, and are formed and amortised without an impact on profit or loss in the corresponding equity item if the underlying issue was handled without an impact on profit or loss.

In the balance sheet, the actual and deferred income tax assets and liabilities are, in principle, reported in separate items.

Since financial year 2009, a profit transfer agreement has existed between BayernLB and DKB. The prerequisites for a fiscal unit for income tax purposes are fulfilled. For the companies in the sub-group of DKB, therefore, deferred tax assets and liabilities need not be recognised. The income tax expense or income attributable to the gains/losses on customary business activity is reported in the statement of income of the DKB Group in the item income tax and relates to companies outside the fiscal unit or tax expenses from previous years. In 2013, a controlling agreement was concluded with BayernLB to obtain the status of fiscal unit for sales tax purposes.

Segment reporting

(27) Segment reporting

Segment reporting is performed in accordance with the regulations of IFRS 8 and provides information on the different business areas of the DKB Group.

Segment reporting is based on DKB's business model in conjunction with the BayernLB Group's strategic focus. The segmentation therefore reflects the bank's strategic segments, which are the basis of the internal control, organisational and reporting structures.

Consolidated profit is attributable almost entirely to German-speaking countries. The Group has therefore not opted to undertake any regional differentiation.

The segment reporting is divided into five segments explained below:

– DKB's business involving retail clients and individual clients is combined in the retail clients segment. The key products are the DKB Cash account package and DKB Business (consisting of a current account and credit card with interest paid on credit balances), construction finance and retail loans, investment products, co-branding credit card business and the DKB broker business. The companies DKB Grund GmbH and FMP Forderungsmanagement Potsdam GmbH, which support the client groups, are also assigned to the segment. Their business purpose is brokering financial services and real estate, as well as servicing and collecting loans and advances, predominantly from the retail clients business.

– The infrastructure segment contains business with clients in the local authorities and social infrastructure, energy and utilities, housing and administrators sectors. The key products are loans, pass-through loans, term loans and current account overdrafts, guarantees, deposit business and the management of business accounts including payment services.

– The corporate clients segment handles the business with clients from the areas of environmental technology, food and agriculture, and tourism. The segment also focuses on the Centre of Competence for Renewable Energies. In addition, it includes lending and deposit business involving the Group's strategic subsidiaries, and leasing and syndicated business. The key products are loans, pass-through loans, term loans and current account overdrafts, guarantees, deposit business and the management of business accounts including payment services. The subsidiaries DKB Finance GmbH and MVC Unternehmensbeteiligungs GmbH, which support client groups through corporate and venture capital investments and via property investments as part of the development of commercial real estate, are also assigned to this segment.

– The financial markets segment comprises the Treasury division of DKB AG. Essentially, this includes funding including managing interest rate risk, deposit business with institutional clients, passing on client deposits to BayernLB as part of the intra-Group funding system, and internal transactions with BayernLB to manage liquidity. The activities within the custody account A business are also assigned to this segment. This relates, in particular, to the management of the securities portfolio required for the core business (including the regulatory liquidity portfolio) and the business with the DKB mutual funds. The gains or losses on DKB AG's hedging transactions are also assigned to the financial markets segment.

– The "other" segment contains cross-divisional transactions and contributions to earnings which cannot be allocated to the segments according to source. These include central administrative expenses, investment income from subsidiaries, the bank levy, deposit guarantee scheme and supervisory fees for DKB AG, as well as other special effects. The activities of DKB Service GmbH are also presented in this segment. Its key areas of activity are processing back office tasks for the DKB Group, handling standardised bulk business for DKB products and supplying services for Group companies. The non-core business segment bundles all the business that no longer complies with our business strategy, which is being reduced as part of the higher-level restructuring concept of the BayernLB Group. This includes selected client portfolios and investments, including DKB AG's lending and deposit business with these investments.

The segment information is based on the internal contribution margin accounting system used for business administration purposes and data from the external accounting system.

In principle, all consolidation effects within the DKB Group are presented in the reconciliation column. For the result of the current year, these are in the net interest income, and include, in particular, consolidation entries from the offsetting of results between Group companies and the consolidation items between DKB AG and DKB Service GmbH. The administrative expenses, other income and expenses and net commission income items were significantly affected by the consolidation of DKB Service GmbH, both in the ″other“ segment and in the consolidation. Overall, these effects are of minor significance for the Group's earnings. In the result of the current reporting year, there are no further reconciliation items requiring explanation.

Intra-segment transactions are only reported under the net interest income item in the ″other“ (from non-core business) and corporate clients segments and relate to the lending and deposit business of the respective Group subsidiaries. This relates to segment assets totalling EUR 68.2 million, without significant intra-segment earnings. There are no dependencies on major clients as defined in IFRS 8.34.

The net interest income of DKB AG is collated on the basis of partial bank balance sheets for the internal management of the business areas and reconciled to the market interest method for the purposes of client group management. The subsidiaries' interest income and expenses are shown in the segment to which they have been allocated in each case. Particular features of IFRS financial reporting are taken into account in the respective segments – if direct allocation is possible.

In compliance with IFRS financial reporting, net commission income was allocated to the segments on the basis of the origin of the transaction using data from internal reporting and the external accounting system.

The risk result, gains or losses on fair value measurement, hedging transactions and financial investments, as well as other income and expenses, are determined in accordance with IFRS principles. The administrative expenses of the respective segments include all directly assignable staff costs and other administrative expenses, allocated indirect administrative expenses (in particular central sales and IT costs) and allocations of overhead costs. Gains or losses on restructuring includes expenses from run-down measures as part of implementing the restructuring plan, as well as expenses from the absorption of losses for non-strategic Group subsidiaries. It is therefore shown in the ″other“ segment, similarly to the non-core business.

Segment assets are determined on the basis of balance sheet figures. Clients receivables, which are shown at nominal value, are an exception. The difference of EUR 99.3 million (2017: EUR 98.1 million) and the risk provision holding on receivables of DKB AG of EUR –418.5 million (2017: EUR –351.9 million) are included in the reconciliation column.

The average commercial equity is determined on the basis of the regulatory Tier 1 capital and is assigned in line with the average, allocated risk items in accordance with the regulatory reporting codes (risk assets and market risks as per the credit risk standard approach according to article 111 ff. of the Regulation (EU) No. 575/2013 (CRR) and operational risks).

The return on equity (RoE) is determined as the ratio between profit/loss before taxes and the allocated average equity. The cost/income ratio (CIR) represents the ratio of administrative expenses to the total of the income items of net interest income, net commission income, gains or losses on fair value measurement, gains or losses on hedge accounting, gains or losses on financial investments, other comprehensive income and the result from the disposal of AAC category financial instruments (as part of the risk result). The KPIs are collated for all market-relevant business areas. These KPIs are not collated and disclosed for the ″other“ segment due to their limited informative value.

In contrast with the previous year's report, the non-core business is no longer reported as a separate segment. The corresponding comparative figures from the previous year were adjusted in the "other" segment. As a result of the introduction of IFRS 9, the DKB Group has created a new item in the consolidated statement of comprehensive income, namely the "Risk result" item, in order to better reflect the interrelationships of credit-rating-related effects on profit or loss. The risk result combines the earnings effects of the former item "Risk provision" with the earnings effects of insignificant modifications of Level 2 and Level 3 financial instruments and the results from the disposal of financial instruments in the AAC category.

Segment reporting 31 Dec. 2018

EUR millions	Retail clients	Infrastructure	Corporate clients	Financial markets	Other	Reconciliation/ Consolidation	Group
Net interest income	424.1	349.0	190.1	5.3	25.9	–17.7	**976.7**
Risk result	–25.8	–7.2	–68.6	–	–10.2	–	**–111.8**
Net commission income	–53.4	7.1	15.4	–3.1	–16.7	17.0	**–33.7**
Gains or losses on fair value measurement	–	–	0.4	–3.0	5.4	–	**2.8**
Gains or losses on hedging transactions	–	–	–	–43.5	–	–	**–43.5**
Gains or losses on financial investments	–	–	–	0.4	–	–	**0.4**
Administrative expenses	–224.3	–135.0	–72.1	–12.6	–186.3	155.6	**–474.7**
Expenses from the bank levies, deposit protection and banking supervision	–	–	–	–	–40.3	–	**–40.3**
Other income and expenses	–2.9	1.5	8.9	–	191.5	–173.8	**25.2**
Gains or losses on restructuring	–	–	–	–	0.0	–	**–0.0**
Profit/loss before taxes	**117.7**	**215.4**	**74.1**	**–56.5**	**–30.7**	**–18.8**	**301.2**
Segment assets	12,414.4	40,150.6	13,220.1	10,384.8	1,799.8	–582.1	**77,387.6**
Risk positions	7,599.5	12,518.0	11,989.4	249.8	488.8	–	**32,845.5**
Average commercial equity	684.7	1,101.3	1,098.9	23.9	39.7	–	**2,948.5**
Return on equity (RoE)	17.2%	19.6%	6.7%	<–100%			**10.2%**
Cost/income ratio (CIR)	60.3%	37.7%	33.5%	<0%			**51.5%**

Segment reporting 31 Dec. 2017

EUR millions	Retail clients	Infrastructure	Corporate clients	Financial markets	Other	Reconciliation/ Consolidation	**Group**
Net interest income	394.3	316.9	160.5	41.8	26.9	–5.2	**935.2**
Risk provisions	–43.9	–22.8	–51.4	–0.0	–9.2	–	**–127.3**
Net commission income	–76.0	3.6	25.2	–2.6	2.3	8.3	**–39.2**
Gains or losses on fair value measurement	–	–	–	89.7	–	–	**89.7**
Gains or losses on hedging transactions	–	–	–	–124.2	–	–	**–124.2**
Gains or losses on financial investments	–	–	0.0	20.8	–	–	**20.8**
Administrative expenses	–206.9	–88.4	–65.1	–6.6	–217.9	138.6	**–446.3**
Expenses from the bank levies, deposit protection and banking supervision	–	–	–	–	–37.4	–	**–37.4**
Other income and expenses	6.1	–2.1	–9.3	–	146.5	–144.4	**–3.2**
Gains or losses on restructuring	–	–	–	–	–3.4	–	**–3.4**
Profit/loss before taxes	**73.6**	**207.2**	**59.9**	**18.9**	**–92.2**	**–2.7**	**264.7**
Segment assets	12,976.2	37,982.0	13,314.6	11,023.7	2,453.6	–427.2	**77,322.9**
Risk positions	7,453.7	11,798.0	12,176.7	242.8	412.7	–	**32,083.9**
Average commercial equity	641.5	995.6	1,060.3	22.3	44.3	–	**2,764.0**
Return on equity (RoE)	11.5%	20.8%	5.6%	84.8%			**9.6%**
Cost/income ratio (CIR)	63.8%	27.8%	36.9%	25.9%			**50.8%**

Notes to the consolidated statement of comprehensive income

In the case of tabular presentations, the information for the reporting period and the previous period is summarised in a table if the structure of the table has remained unchanged compared with the previous period – despite the change in classification and measurement regulations due to IFRS 9. Otherwise, the information is displayed in two separate tables.

(28) Net interest income

Interest from financial instruments calculated using the effective interest method

EUR millions	2018
Interest income	**1,712.4**
Interest income from lending and money market transactions	1,691.2
Interest income from bonds and other fixed-income securities	19.8
Other interest income	1.4
Positive interest expenses	**6.7**
Interest expenses	**–697.4**
Interest expenses for liabilities to banks and clients	–394.2
Interest expenses for derivatives (hedging transactions)	–169.9
Interest expenses for securitised liabilities	–39.7
Interest expenses for subordinated capital	–26.9
Other interest expenses	–66.6
Negative interest income	**–17.5**
Total	**1,004.1**

For financial assets and financial liabilities that are not measured at fair value through profit and loss, the entire interest income is EUR 1,722.5 million (previous year: EUR 1,878.3 million) and the entire interest expense is EUR 547.3 million (previous year: EUR 608.4 million).

The interest income from lending and money market transactions includes income from impaired receivables (unwinding effect) of EUR 9.8 million (previous year: EUR 7.1 million).

Other interest

EUR millions	2018
Interest income	
Interest income from lending and money market transactions	1.8
Other interest income	1.6
Positive interest expenses	**0.0**
Interest expenses	
Interest expenses for derivatives in commercial hedging relationships	–5.8
Other interest expenses	–2.2
Negative interest income	**–22.9**
Total	**–27.4**

Other interest income includes income from shares in non-consolidated subsidiaries of EUR 0.2 million (previous year: EUR 0.2 million).

The following table shows the composition of net interest income for the first half of 2017:

EUR millions	2017
Interest income	**1,876.1**
Interest income from lending and money market transactions	1,853.7
Interest income from bonds and other fixed-income securities	17.7
Current income	4.7
Positive interest expenses	**2.2**
Interest expenses	**–897.7**
Interest expenses for liabilities to banks and clients	–505.5
Interest expenses for derivatives (hedging transactions)	–218.3
Interest expenses for securitised liabilities	–42.1
Interest expenses for subordinated capital	–20.9
Interest expenses for derivatives in economic hedging relationships	–90.1
Other interest expenses	–20.8
Negative interest income	**–45.4**
Total	**935.2**

(29) Risk result

The risk result includes the effects on profit or loss of credit-rating-related valuation changes as part of risk provisioning and modifications. The risk result also includes the results from the disposal of AAC financial instruments.

EUR millions	2018
Risk provision result	**–104.8**
Income from the reversal of balance sheet and off-balance-sheet risk provisions	525.6
Expenses from the addition of balance sheet and off-balance-sheet risk provisions	–616.8
Expenses from direct write-offs	–23.6
Income from receipts on receivables written off	10.7
Result from non-significant credit-rating-induced modifications	–0.7
Result from the disposal of AAC-category financial instruments	**–7.0**
Modification income from significant modifications	8.7
Modification expenses from significant modifications	–16.6
Disposal gains	0.8
Disposal expenses	–
Total	**–111.8**

The risk result is allocated to the segments of the DKB Group as follows:

EUR millions	Retail clients	Infrastructure	Corporate clients	Financial markets	Other	Reconciliation/ Consolidation	**Group**
Risk provision result	–30.1	–7.9	–68.8	–	2.0	–	**–104.8**
Result from the disposal of AAC-category financial instruments	4.3	0.7	0.2	–	–12.2	–	**–7.0**
Total	**–25.8**	**–7.2**	**–68.6**	**–**	**–10.2**	**–**	**–111.8**

The following table shows the composition of the risk provision for 2017:

EUR millions	2017
Additions	**–194.0**
Impairment losses on loans and advances	–186.9
Provisions in the credit business	–7.1
Releases	**54.4**
Impairment losses on loans and advances	53.7
Provisions in the credit business	0.7
Recoveries on written-down receivables	**12.3**
Total	**–127.3**

(30) Net commission income

	2018			2017
EUR millions	**Income**	**Expenses**	**Result**	**Result**
Credit card business	173.3	–150.5	22.8	8.6
Lending business	34.9	–51.9	–17.0	–4.4
Payments	18.6	–65.0	–46.4	–55.5
Other net commission income	30.3	–23.4	6.9	12.0
Total	**257.2**	**–290.9**	**–33.7**	**–39.2**

Net commission income is allocated to the segments of the DKB Group as follows:

EUR millions	Retail clients	Infrastructure	Corporate clients	Financial markets	Other	Reconciliation/ Consolidation	**Group**
Credit card business	173.3	–	–	–	–	–	**173.3**
Lending business	22.4	8.1	10.4	–	0.3	–6.3	**34.9**
Payments	7.8	5.9	4.8	–	0.2	–	**18.6**
Other net commission income	27.0	0.9	0.7	1.1	19.7	–19.1	**30.3**
Total	**230.5**	**14.9**	**15.9**	**1.1**	**20.2**	**–25.4**	**257.2**

Commission income of EUR 250.0 million (previous year: EUR 318.4 million) and commission expenses of EUR 244.7 million (previous year: EUR 340.2 million) are the result of financial assets and financial liabilities that were not measured at fair value through profit or loss in the reporting period.

(31) Gains/losses on fair value measurement

EUR millions	2018	2017
Net trading income	**5.8**	**89.7**
Interest-related transactions	4.7	89.3
Currency-related transactions	1.1	0.4
Fair value gains/losses from FVPLM financial instruments	**–3.0**	**–**
Total	**2.8**	**89.7**

Ongoing gains/losses from the derivatives in commercial hedging relationships are reported in net interest income.

(32) Gains or losses on financial investments

As in the previous year, gains or losses on financial investments arose on proceeds from the sale of securities.

(33) Administrative expenses

EUR millions	2018	2017
Staff costs	**–247.3**	**–228.0**
Wages and salaries	–198.9	–183.8
Social security contributions	–32.9	–30.2
of which employer share for statutory pension insurance	–11.5	–13.2
Expenses for pension scheme and support	–15.4	–14.0
of which expenses for defined benefit plans	–7.1	–6.7
Other administrative expenses	**–218.6**	**–210.6**
IT costs	–91.2	–73.5
Contributions, legal and consultancy costs	–39.5	–45.5
Advertising	–23.5	–27.8
Building costs (non-investment properties)	–22.3	–21.9
Communication and other selling costs	–19.8	–19.3
Miscellaneous administrative expenses	–22.3	–22.6
Depreciation and impairments on property, plant and equipment and intangible assets	**–8.8**	**–7.7**
Total	**–474.7**	**–446.3**

(34) Expenses from the bank levies, deposit protection and banking supervision

EUR millions	2018	2017
Bank levy	–22.1	–19.6
Deposit guarantee scheme	–15.1	–14.9
Banking supervision	–3.1	–2.9
Total	**–40.3**	**–37.4**

(35) Other income and expenses

EUR millions	2018	2017
Other income	**59.9**	**42.0**
Income from the reversal of provisions	22.9	7.7
Miscellaneous other income	37.0	34.3
Other expenses	**34.7**	**–45.2**
Expenses from the formation of provisions	–0.2	–0.3
Miscellaneous other expenses	–34.5	–44.9
Total	**25.2**	**–3.2**

(36) Gains/losses from restructuring

The restructuring expenses in the previous year resulted from the implementation of the restructuring measures stipulated for the DKB Group as part of the BayernLB Group and the associated phase-out strategy at subsidiaries.

(37) Income taxes

EUR millions	2018	2017
Current income taxes	**0.5**	**–2.0**
German and foreign corporation tax including solidarity surcharge	0.2	–1.0
Trade tax/foreign local tax	0.3	–1.0
Deferred income taxes	**–0.6**	**0.5**
German and foreign corporation tax including solidarity surcharge	–0.5	0.5
Trade tax/foreign local tax	0.0	0.0
Total	**–0.1**	**–1.5**

Current income taxes result from tax reductions for previous years by companies that were not part of BayernLB's taxable entity until 2017.

The effective tax expense in the financial year is EUR 96.1 million lower than the expected tax expense. This results from:

EUR millions	**2018**	**2017**
Profit/loss before taxes	301.2	264.7
Group income tax rate in % (rounded off)	32.0	32.0
Anticipated income tax expense	**96.2**	**84.7**
Effects of taxes from previous years that were recognised in the financial year	0.1	0.2
Effects of fiscal unity with BayernLB		
from accounting differences	–0.7	5.6
from transfers of the measurement basis	–101.1	–96.4
Effects of non-deductible operating expenses	7.2	7.2
Effects of permanent effects of an accounting nature	–1.7	–0.2
Other effects	0.2	0.4
Effective income tax expense	**0.2**	**1.5**
Effective income tax rate in % (rounded)	**0.1**	**0.6**

The anticipated income tax expense was calculated using the interest rate applicable for BayernLB as controlling company, which is composed of a corporation tax rate of 15.0%, a solidarity surcharge of 5.5% and a weighted trade tax rate of 16.1%.

Notes to the consolidated balance sheet

In the case of tabular presentations, the information for the reporting period and the previous period is summarised in a table if the structure of the table has remained unchanged compared with the previous period – despite the change in classification and measurement regulations due to IFRS 9. Otherwise, the information is displayed in two separate tables.

(38) Cash reserve

EUR millions	31 Dec. 2018	31 Dec. 2017
Cash in hand	11.2	9.8
Credit balances with central banks	1,035.0	1,733.0
Total	**1,046.2**	**1,742.8**

Credit balances with central banks are maintained in euros with various main offices of the Deutsche Bundesbank.

The cash reserve consists exclusively of financial instruments in the AAC category.

(39) Loans and advances to banks

EUR millions	31 Dec. 2018	31 Dec. 2017
Loans and advances to domestic banks	3,687.8	4,601.6
Loans and advances to foreign banks	–	–
Total	**3,687.8**	**4,601.6**

Loans and advances to banks are broken down by maturity as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
On demand	2,962.2	3,520.9
With agreed maturities		
Up to 3 months	500.2	451.5
More than 3 months up to 1 year	203.7	603.7
More than 1 year up to 5 years	13.2	14.2
More than 5 years	8.5	11.3
Total	**3,687.8**	**4,601.6**

Loans and advances to banks consist exclusively of financial instruments in the AAC category.

The risk provision for loans and advances to banks is allocated exclusively to Level 1 and amounted to EUR 1 thousand as of the balance sheet date (31 December 2017: EUR 18 thousand). There were no transfers between levels in the reporting period.

In the reporting period, no model changes were made that would have had a significant effect on the level of the risk provision.

Loans and advances to banks did not contain any financial instruments with impaired creditworthiness (POCI) at the time of acquisition, nor any receivables that had not been significantly modified.

(40) Loans and advances to clients

EUR millions	31 Dec. 2018	31 Dec. 2017
Loans and advances to domestic clients	65,314.6	63,985.1
Loans and advances to foreign clients	617.9	567.1
Total	**65,932.5**	**64,552.2**

There are currently no receivables from finance leasing contracts.

Loans and advances to clients are broken down by maturity as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
With agreed maturities		
Up to 3 months	4,108.5	4,076.8
More than 3 months up to 1 year	4,308.7	4,060.4
More than 1 year up to 5 years	17,900.6	17,016.2
More than 5 years	39,006.8	38,695.9
Indefinite maturities	607.8	702.9
Total	**65,932.5**	**64,552.2**

Loans and advances to clients consist of financial instruments in the following categories:

EUR millions	31 Dec. 2018
AAC-category receivables	65,919.8
FVPLM-category receivables	10.5
FVOCIM-category receivables	2.2
Total	**65,932.5**

The risk provision for losses on loans and advances to clients in the AAC category developed as follows:

EUR millions	Level 1	Level 2	Level 3	POCI	Total
As at 1 Jan.	**–41.7**	**–115.4**	**–265.4**	**–0.9**	**–423.4**
Additions from lending/purchases	–18.2	–9.1	–61.1	–6.0	–94.4
Reversals from disposal/repayment/sale	14.3	93.1	128.1	14.1	249.5
Credit-rating-related changes	–1.2	–101.9	–153.0	–12.2	–268.4
Usage/depreciation	0.0	0.0	107.3	0.0	107.4
Reallocation to Level 1	–10.0	10.0	–	–	0.0
Reallocation to Level 2	14.0	–20.7	6.7	–	0.0
Reallocation to Level 3	4.4	28.6	–33.0	–	0.0
Unwinding	–	–	8.7	0.0	8.6
As at 31 Dec.	**–38.4**	**–115.4**	**–261.8**	**–5.0**	**–420.7**

The gross carrying amount of loans and advances to AAC clients is composed as follows:

EUR millions	Level 1	Level 2	Level 3	POCI	Total
As at 1 Jan.	**61,137.2**	**2,569.9**	**781.9**	**35.8**	**64,524.8**
Lending/purchases	13,500.0	147.5	79.5	104.5	13,831.4
Disposal/repayment/sale	–11,337.7	–637.7	–298.4	–53.4	–12,327.2
Usage of risk provisions/depreciation	–0.1	–0.2	–104.0	–0.0	–104.3
Non-significant modifications	–1.5	–0.4	–0.3	–	–2.2
Reallocation to Level 1	1,667.2	–1,645.3	–21.8	–	0.0
Reallocation to Level 2	–2,431.3	2,454.8	–23.5	–	0.0
Reallocation to Level 3	–130.5	–196.1	326.6	–	0.0
Other changes	–2.8	–0.2	0.1	0.1	–2.7
As at 31 Dec.	**62,400.4**	**2,692.4**	**739.9**	**87.0**	**65,919.8**

The impairment losses on receivables from clients in the FVOCIM category relate exclusively to financial instruments with impaired credit ratings (POCI) at the time of acquisition and amounted to EUR 0.8 million as at the balance sheet date. There were no transfers between levels in the reporting period.

In the reporting year, no model changes were made that would have had a significant effect on the level of the risk provision or impairments.

In the reporting year, the total amount of undiscounted expected credit losses in the initial recognition of financial instruments with impaired credit ratings (POCI) amounted to EUR 21.9 million.

For financial instruments for which the contractually agreed cash flows were amended in the year under review and whose value adjustment was measured in the amount of the expected credit losses over the term, the amortised cost before amendment amounted to EUR 122.4 million.

The gross carrying amount of financial instruments that were amended at a time when the allowance was measured at the amount of the expected credit loss over the life of the financial instrument and for which the allowance was adjusted to the amount of the expected twelve-month credit loss in the year under review was EUR 9.8 million at the balance sheet date.

(41) Risk provisions

	31 Dec. 2018				
EUR millions	**Level 1**	**Level 2**	**Level 3**	**POCI**	**Total**
Loans and advances to banks	0.0	–	–	–	0.0
Loans and advances to clients	–38.4	–115.4	–261.8	–5.0	–420.7
Total	**–38.4**	**–115.4**	**–261.8**	**–5.0**	**–420.7**

The development of loan loss provisions in the reporting year is shown under loans and advances to banks (Note 39) and loans and advances to clients (Note 40).

The following tables show the composition of the risk provision as at 31 December 2017.

Specific loan loss provisions for loans and advances to clients

EUR millions	**31 Dec. 2017**
Opening balance	**–385.0**
Changes recognised through profit or loss	**–89.8**
Additions	–150.7
Releases	53.7
Unwinding	7.2
Changes not recognised through profit or loss	**217.2**
Utilisation	217.2
Closing balance	**–257.6**

No specific valuation allowances were recognised for loans and advances to banks in the previous year.

Portfolio loan loss provisions for loans and advances to clients

EUR millions	**31 Dec. 2017**
Opening balance	**–63.8**
Changes recognised through profit or loss	**–35.5**
Additions	–35.5
Releases	0.0
Changes not recognised through profit or loss	**–**
Utilisation	–
Closing balance	**–99.3**

As of 31 December 2017, receivables of EUR 21.1 million were written off directly. Direct depreciations are shown as the utilisation of specific valuation allowances.

For loans and advances to banks, portfolio allowances of EUR 18 thousand existed as of 31 December 2017.

(42) Assets held for trading

Assets held for trading exclusively contain positive market values from domestic derivative financial instruments concluded for hedging purposes that are not designated as hedging instruments within the scope of hedge accounting in accordance with IAS 39. These are exclusively interest-related transactions (previous year: broken down into interest-related transactions of EUR 3.4 million and currency-related transactions of EUR 0.2 million).

Assets held for trading consist exclusively of financial instruments in the FVPLM category.

Assets held for trading are broken down by maturity as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
With agreed maturities		
Up to 3 months	–	0.2
More than 3 months up to 1 year	–	–
More than 1 year up to 5 years	–	–
More than 5 years	3.2	3.4
Total	**3.2**	**3.6**

(43) Financial investments

EUR millions	31 Dec. 2018	31 Dec. 2017
Bonds and other fixed-income securities	6,168.0	5,832.2
Equities and other non-fixed-income securities	129.1	141.5
Other financial investments	65.1	54.2
Total	**6,362.3**	**6,027.9**

Financial investments include shares in non-consolidated subsidiaries of EUR 10.7 million (previous year: EUR 7.7 million).

Financial investments consist of financial instruments in the following categories:

EUR millions	31 Dec. 2018
FVOCIM-category financial investments	6,168.0
FVPLM-category financial investments	174.3
AAC-category financial investments	20.0
Total	**6,362.3**

The valuation allowances deducted from the carrying amount for the financial investments in the category FVOCIM are allocated exclusively to Level 1 and amounted to EUR 0.3 million as at the balance sheet date. There were no transfers between levels in the reporting period.

In the reporting year, no model changes were made that would have had a significant effect on the level of the impairments.

In the reporting year, financial investments did not contain any financial instruments with impaired creditworthiness (POCI) at the time of acquisition, nor any receivables not significantly modified.

Financial investments include the following marketable securities:

EUR millions	31 Dec. 2018	31 Dec. 2017
Bonds and other fixed-income securities	6,168.0	5,832.2
Equities and other non-fixed-income securities	124.9	133.9
Total	**6,293.0**	**5,966.1**

The debt instruments and other fixed-income securities exclusively include bonds and debt instruments. Of this amount, EUR 6,168.0 million (previous year: EUR 5,832.2 million) is eligible as collateral with central banks and EUR 895.1 million (previous year: EUR 398.5 million) is due in the following year (including accrued interest).

As in the previous year, equities and other non-fixed-income securities consist exclusively of investment fund shares.

Financial investments are broken down by maturity as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
With agreed maturities		
Up to 3 months	200.5	15.5
More than 3 months up to 1 year	694.7	383.1
More than 1 year up to 5 years	3,541.0	3,509.6
More than 5 years	1,754.4	1,944.0
Indefinite maturities	171.7	175.7
Total	**6,362.3**	**6,027.9**

(44) Income tax assets

EUR millions	31 Dec. 2018	31 Dec. 2017
Current income tax assets	1.6	0.0
Deferred income tax assets (after offsetting)	–	0.3
Total	**1.6**	**0.3**

The income tax assets arose exclusively in Germany.

The tax loss carryforwards are as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
Loss carryforwards, corporation tax	122.8	122.8
Loss carryforwards, trade tax	90.4	90.4

No deferred tax assets were recognised on the loss carryforwards from the previous tax group due to the tax unity with BayernLB. They can be used indefinitely.

The intrinsic value of loss carryforwards is evaluated on the basis of tax forecast calculations. Deferred tax assets were not formed on loss carryforwards for companies that are part of the fiscal unit for income tax purposes.

(45) Liabilities to banks

EUR millions	31 Dec. 2018	31 Dec. 2017
Liabilities to domestic banks	13,239.8	13,250.7
Liabilities to foreign banks	573.5	1,130.4
Total	**13,813.3**	**14,381.1**

Liabilities to banks consist exclusively of financial instruments in the AAC category.

Liabilities to banks are broken down by maturity as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
On demand	201.4	251.6
With agreed maturities		
Up to 3 months	912.3	377.0
More than 3 months up to 1 year	768.1	1,009.3
More than 1 year up to 5 years	4,016.9	4,402.9
More than 5 years	7,914.7	8,340.3
Total	**13,813.3**	**14,381.1**

(46) Liabilities to clients

EUR millions	31 Dec. 2018	31 Dec. 2017
Savings deposits	**346.9**	**353.5**
With agreed notice period of 3 months	346.9	353.5
Other liabilities	**54,019.2**	**53,577.5**
On demand	45,704.4	43,945.3
With agreed term or notice period	8,314.7	9,632.2
Total	**54,366.1**	**53,931.0**

EUR millions	31 Dec. 2018	31 Dec. 2017
Liabilities to domestic clients	53,301.7	52,942.9
Liabilities to foreign clients	1,064.4	988.1
Total	**54,366.1**	**53,931.0**

Liabilities to clients consist exclusively of financial instruments in the AAC category.

Liabilities to clients are broken down by maturity as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
On demand	45,704.4	43,945.3
With agreed maturities		
Up to 3 months	2,633.8	4,276.0
More than 3 months up to 1 year	990.2	396.5
More than 1 year up to 5 years	2,575.0	2,417.6
More than 5 years	2,462.6	2,895.6
Total	**54,366.1**	**53,931.0**

(47) Securitised liabilities

EUR millions	31 Dec. 2018	31 Dec. 2017
Bonds and notes issued		
Mortgage Pfandbriefs	2,220.9	2,304.5
Public-sector Pfandbriefs	1,403.3	1,423.5
Other bonds and notes	998.2	997.1
Total	**4,622.3**	**4,725.1**

Securitised liabilities consist exclusively of financial instruments in the AAC category.

In the reporting year, public Pfandbriefs and mortgage Pfandbriefs were issued in the nominal amount of EUR 500 million (previous year: EUR 0.0 million) and a nominal amount of EUR 592.5 million (previous year: EUR 230.0) was repaid. Bearer bonds were not issued (previous year: nominal: EUR 500.0 million).

Securitised liabilities are broken down by maturity as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
With agreed maturities		
Up to 3 months	282.5	526.4
More than 3 months up to 1 year	20.0	92.5
More than 1 year up to 5 years	1,733.7	1,464.2
More than 5 years	2,586.1	2,642.0
Total	**4,622.3**	**4,725.1**

(48) Liabilities held for trading

Liabilities held for trading exclusively contain negative market values from domestic derivative financial instruments concluded for hedging purposes that are not designated as hedging instruments within the scope of hedge accounting in accordance with IAS 39, and are divided into interest-related transactions of EUR 1.0 million (previous year: EUR 22.2 million) and currency-related transactions of EUR 0.2 million (previous year: EUR 0.1 million).

Liabilities held for trading consist exclusively of financial instruments in the FVPLM category.

Liabilities held for trading are broken down by maturity as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
With agreed maturities		
Up to 3 months	0.6	19.5
More than 3 months up to 1 year	0.1	0.1
More than 1 year up to 5 years	–	–
More than 5 years	0.5	2.7
Total	**1.2**	**22.3**

(49) Provisions

EUR millions	31 Dec. 2018	31 Dec. 2017
Provisions for pensions and similar obligations	**85.2**	**80.7**
Other provisions	**95.2**	**83.7**
Provisions in the credit business	48.9	15.2
Miscellaneous provisions	46.3	68.5
Total	**180.4**	**164.4**

Provisions for pensions and similar obligations

The provisions for pensions and similar obligations include the obligations to provide retirement benefits. The DKB Group uses the implementation method of direct commitment (unfunded plan). The defined benefit obligation (DBO) was determined as the present value of all retirement benefits as at the balance sheet reporting day, already proportionately earned as at the reporting day.

The carrying amount (which also corresponds to the present value) of the pension obligations developed as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
As at 1 Jan.	**80.6**	**78.1**
Changes in the group of consolidated companies	–	–
Current service cost	3.3	3.8
Interest expense	1.5	1.4
Changes from the revaluation	1.3	–1.4
Employee contributions to the plan	0.1	0.1
Paid benefits	–1.7	–1.4
Past service cost	–	–
Plan compensation	–	–
As at 31 Dec.	**85.2**	**80.6**

The changes from the revaluation encompass the actuarial gains/losses from the change in the present value of the pension obligations. The changes from the revaluation are recognised without an impact on profit or loss in equity under the retained earnings.

The main measurement parameters have the following sensitivities:

EUR millions	Increase by 0.5 percentage points	Decline by 0.5 percentage points
Discounting interest rate	–6.0	6.7
Salary developments and pension trends [1]	3.5	–3.2

[1] Salary developments and pension trends are considered together for the sensitivity calculations.

The extension of life expectancy (biometry) by one year would cause an effect of EUR 1.8 million.

The DKB Group is not reporting any plan assets in the reporting year.

In the reporting year, the following expenses were recognised in the income statement for pension obligations:

EUR millions	31 Dec. 2018	31 Dec. 2017
Current service cost (administrative expense)	3.3	3.8
Net interest cost from pension provisions (interest expense)	1.5	1.4
Total	**4.8**	**5.2**

Other provisions

Provisions in the lending business reflect the credit risks in the off-balance-sheet lending business:

EUR millions	31 Dec. 2018
Provisions for loan commitments and financial guarantees in accordance with IFRS 9	**42.3**
Provisions for loan commitments and financial guarantees – Level 1	5.6
Provisions for loan commitments and financial guarantees – Level 2	8.6
Provisions for loan commitments and financial guarantees – Level 3	26.1
Provisions for loan commitments and financial guarantees – POCI	2.1
Provisions for other contingent liabilities in accordance with IAS 37	**6.6**
Total	**48.9**

The development of provisions for loan commitments and financial guarantees in accordance with IFRS 9 in the reporting year is presented under contingent liabilities and other commitments (Note 53).

Other provisions developed as follows:

EUR millions	31 Dec. 2017	Utilisation	Additions	Reversals	Rebookings	31 Dec. 2018
Provisions for litigation expenses and legal risks	35.2	–17.0	14.2	–15.0	–	17.4
Human resources	14.6	–5.9	7.5	–0.5	–1.1	14.6
Restructuring	4.3	–0.2	–	–	–	4.1
Archiving costs	3.5	–0.6	0.6	–	–	3.5
Other	10.9	–0.1	3.3	–7.4	–	6.7
Total	**68.5**	**–23.8**	**25.6**	**–22.9**	**–1.1**	**46.3**

Discounted provisions were compounded in the financial year by EUR 679 thousand (previous year: EUR 62 thousand). The change in the discounting rate led to a provision reduction of EUR 523 thousand (previous year: reduction of EUR 0 thousand).

Of the other provisions, EUR 23.5 million (previous year: EUR 39.5 million) are due after more than twelve months.

(50) Income tax liabilities

EUR millions	31 Dec. 2018	31 Dec. 2017
Current income tax liabilities	0.6	1.2
Deferred income tax liabilities	–	0.0
Total	**0.6**	**1.2**

The income tax liabilities arose exclusively in Germany.

The deferred income tax liabilities are distributed among the following items:

EUR millions	31 Dec. 2018	31 Dec. 2017
Loans and advances to banks and clients	–	0.4
Risk provisions	–	1.3
Other assets including intangible assets	–	0.2
Deferred income tax liabilities (before offsetting)	**–**	**1.9**
Offsetting with deferred income tax assets	**–**	**–1.9**
Total	**–**	**0.0**

The change in deferred income tax liabilities (before offsetting) was taken into consideration through profit and loss in the amount of EUR 1.5 million and without an impact on profit and loss in the amount of EUR 0.4 million.

As of 31 December 2018, there were no deferred taxes (before netting) recognised directly in equity against the revaluation reserve (previous year: EUR 0.4 million).

(51) Subordinate capital

EUR millions	31 Dec. 2018	31 Dec. 2017
Subordinated liabilities	652.9	607.9
Additional regulatory core capital	100.0	50.0
Profit participation certificates	28.7	26.8
Total	**781.7**	**684.7**

The subordinated capital consists exclusively of financial instruments in the AAC category. The subordinated liabilities must be arranged contractually such that, in the event of insolvency or the liquidation of DKB, a reimbursement does not take place until all non-subordinate creditors are first satisfied. A premature repayment obligation at the creditor's request cannot arise. The prerequisites for attribution to the regulatory equity in accordance with Section 62 CRR are fulfilled at DKB for a portfolio of nominally EUR 639.0 million.

The interest expense for subordinated capital is distributed as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
Subordinated liabilities	24.7	19.8
Additional regulatory core capital	1.1	–
Profit participation certificates	1.1	1.1
Total	**26.9**	**20.9**

The subordinate liabilities include accrued interest of EUR 14.0 million (previous year: EUR 14.1 million).

Of the subordinate liabilities, EUR 96.0 million (previous year: EUR 11.0 million) are due before the expiry of two years.

An uncovered subordinated registered bond in the amount of EUR 50.0 million was issued for the first time during the financial year. The instrument qualifies as additional core capital under Article 52 CRR.

Profit participation capital is also eligible for inclusion in regulatory capital in accordance with Article 62 CRR. Profit participation rights in the amount of EUR 2.0 million were issued in the financial year (previous year: EUR 0 million).

Subordinated capital is broken down by maturity as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
With agreed maturities		
Up to 3 months	14.0	16.1
More than 3 months up to 1 year	6.0	3.0
More than 1 year up to 5 years	132.9	138.8
More than 5 years	500.0	450.0
With indefinite maturity	128.8	76.8
Total	**781.7**	**684.7**

(52) Equity

EUR millions	31 Dec. 2018	31 Dec. 2017
Subscribed capital	339.3	339.3
Capital surplus	1,414.4	1,414.4
Retained earnings	1,303.8	1,093.4
Statutory reserve	242.4	242.4
Reserve from the revaluation of defined benefit pension plans	–29.3	–27.9
Other retained earnings	1,090.6	878.9
Revaluation surplus	59.9	133.5
Consolidated net retained profits/net accumulated losses	223.0	274.9
Total	**3,340.4**	**3,255.5**

The subscribed capital represents the statutory share capital of DKB AG and is divided into 130.5 million no-par value shares, all of which are held by BayernLB.

The payments made by shareholders into equity are included in the capital reserve.

The amounts that were assigned mainly to the reserves from the profits of previous years and from the profit of the current year are reported under retained earnings. They are broken down into the statutory reserve and other retained earnings.

The reserve from the revaluation of defined-benefit pension plans contains the valuation results from the revaluation of defined-benefit pension plans not affecting net income.

The retained earnings increased by EUR 210.4 million, in particular due to the allocation of the consolidated balance sheet profit from the previous year less the first-time application effect of IFRS 9.

The revaluation reserve of EUR 58.8 million mainly results from the fair value measurement of FVOCIM financial instruments. The decline compared to the end of the previous year is mainly due to a reclassification of EUR 52.3 million to retained earnings due to the first-time application of IFRS 9.

The impairments for FVOCIM financial instruments shown in the revaluation reserve in addition to the fair value measurement are shown under loans and advances to clients (Note 40) and financial investments (Note 43).

(53) Contingent liabilities and other commitments

EUR millions	31 Dec. 2018
Contingent liabilities	**639.3**
Liabilities from guarantees and indemnity agreements	637.2
Contingent liabilities from legal disputes	2.0
Other commitments	**3,838.5**
Loan commitments	3,838.5
Total	**4,477.8**

The following table shows the composition of contingent liabilities and other commitments as of 31 December 2017.

EUR millions	31 Dec. 2017
Contingent liabilities	**752.5**
Liabilities from guarantees and indemnity agreements	749.2
Contingent liabilities from legal disputes	3.3
Other commitments	**3,250.6**
Irrevocable credit commitments	3,250.6
Total	**4,003.1**

The provisions for loan commitments and financial guarantees in accordance with IFRS 9 developed as follows:

EUR millions	Level 1	Level 2	Level 3	POCI	Total
As at 1 Jan.	**5.3**	**11.7**	**10.5**	**–**	**27.5**
Additions from lending/purchases	12.7	5.0	28.8	6.2	52.7
Reversals from disposal/repayment/sale	–10.4	–25.5	–25.7	–3.7	–65.3
Credit-rating-related changes	–2.1	17.8	13.0	–0.4	28.4
Reallocation to Level 1	1.0	–1.0	–	–	0.0
Reallocation to Level 2	–0.7	1.0	–0.3	–	0.0
Reallocation to Level 3	–0.3	–0.5	0.8	–	0.0
Unwinding	–	–	–1.0	–0.1	–1.1
As at 31 Dec.	**5.6**	**8.6**	**26.1**	**2.1**	**42.3**

In the reporting period, no model changes were made that would have had a significant effect on the level of the risk provision.

In the reporting year, the total amount of undiscounted expected credit losses in the initial recognition of financial instruments with impaired credit ratings (POCI) amounted to EUR 0.8 million.

The exposure of loan commitments and financial guarantees is composed as follows:

EUR millions	Level 1	Level 2	Level 3	POCI	Total
As at 1 Jan.	**17,654.2**	**454.3**	**53.0**	**–**	**18,161.5**
Lending/purchases	12,515.6	105.4	16.8	6.1	12,643.9
Disposal/repayment/sale	–10,948.6	–200.6	–35.1	–4.1	–11,188.3
Reallocation to Level 1	469.4	–469.2	–0.3	–	0.0
Reallocation to Level 2	–416.4	416.7	–0.3	–	0.0
Reallocation to Level 3	–12.7	–5.5	18.1	–	0.0
Other changes	–	–	–0.2	0.2	0.0
As at 31 Dec.	**19,261.7**	**301.2**	**52.0**	**2.2**	**19,617.1**

Disclosures relating to financial instruments

With respect to the notes on the risks arising from financial instruments in accordance with IFRS 7, please also refer to the risk report in the management report of the DKB Group, in addition to the following statements.

(54) Fair value and measurement hierarchies of financial instruments

Fair value of financial instruments[1]

	Fair value		Carrying amount	
EUR millions	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**	**31 Dec. 2017**
Assets		**80,506.5**		**77,354.6**
Cash reserves	1,046.2	1,742.8	1,046.2	1,742.8
Loans and advances to banks	3,688.6	4,606.9	3,687.8	4,601.6
Loans and advances to clients [2]	67,849.4	68,154.1	66,339.6	65,007.5
Assets held for trading	3.2	3.6	3.2	3.6
Positive fair values from derivative financial instruments (hedge accounting)	0.0	–	0.0	–
Financial investments [3]	6,362.3	5,999.1	6,368.4	5,999.1
Liabilities		**75,704.6**		**73,761.9**
Liabilities to banks	14,585.5	15,242.3	13,813.3	14,381.1
Liabilities to clients	55,014.9	54,789.3	54,366.1	53,931.0
Securitised liabilities	4,721.0	4,828.3	4,622.3	4,725.1
Trading liabilities	1.2	22.3	1.2	22.3
Negative fair values from derivative financial instruments (hedge accounting)	17.0	17.7	17.0	17.7
Subordinated capital	902.9	804.7	781.7	684.7

[1] For current financial instruments, the book value regularly corresponds to the fair value.
[2] Including portfolio hedge adjustment attributable to assets.
[3] In the previous year: Excluding participations and shares in "affiliated" companies that are measured at cost.

The DKB Group is not planning to sell any of the financial instruments reported.

Hierarchy of fair values
In the hierarchy of fair values, the measurement parameters used to assess the fair value of financial instruments are split into the following three levels:

Level 1: Instruments are measured using prices quoted on active markets (without any adjustments) to which the DKB Group has access on the measurement date.

These include funds and bonds which are traded in highly liquid markets.

Level 2: The fair values are determined by means of measurement methods, where the measurement parameters are observable directly (as prices) or indirectly (derived from prices), and do not come under Level 1. These may be listed prices on active markets for similar financial instruments, listed prices on inactive markets, other observable input parameters (such as interest rates and exchange rates) and market-based input factors.

These include off-market derivatives, such as interest rate swaps and forward exchange transactions, as well as bonds, which are not allocated to Level 1.

Level 3: The fair values are determined by means of valuation methods, where the measurement parameters are not based on observable market data. The financial instruments in this category have at least one input parameter which is not observable on the market and has a material influence on their fair values (such as internally calculated margins and creditworthiness spreads).

These include loans and advances to clients and company shares.

Financial instruments, which are not measured at fair value, are not managed on the basis of their fair value. This is the case for loans and deposits, for example. The fair value is only calculated for such instruments for the purposes of disclosure in the notes. Changes to the calculated fair values have no impact on either the consolidated balance sheet or the consolidated statement of comprehensive income.

If the fair value of the financial instrument is determined on the basis of several measurement parameters, the overall fair value is allocated in accordance with the measurement parameter with the lowest level material to the fair value calculation.

Financial instruments measured at fair value
Over the course of the reporting year, transfers took place between the hierarchy levels for the financial instruments that were measured at fair value. The end of the reporting year is used as the transfer date.

	31 Dec. 2018			
EUR millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Loans and advances to clients	–	–	12.7	**12.7**
Assets held for trading	–	3.2	–	**3.2**
Positive fair values from derivatives (hedge accounting)	–	0.0	–	**0.0**
Financial investments (debt instruments)	4,916.7	1,251.3	–	**6,168.0**
Financial investments (equity instruments)	129.1	–	–	**129.1**
Total	**5,045.8**	**1,254.5**	**12.7**	**6,313.0**
Liabilities				
Trading liabilities	–	1.2	–	**1.2**
Negative fair values from derivatives (hedge accounting)	–	17.0	–	**17.0**
Total	**–**	**18.2**	**–**	**18.2**

	31 Dec. 2017			
EUR millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Loans and advances to clients	–	–	3.9	**3.9**
Assets held for trading	–	3.4	–	**3.4**
Positive fair values from derivatives (hedge accounting)	–	–	–	**–**
Financial investments (debt instruments) [1]	3,629.0	2,203.2	–	**5,832.2**
Financial investments (equity instruments) [1]	141.5	–	–	**141.5**
Total	**3,770.5**	**2,206.6**	**3.9**	**5,981.0**
Liabilities				
Trading liabilities	–	22.3	–	**22.3**
Negative fair values from derivatives (hedge accounting)	–	17.7	–	**17.7**
Total	**–**	**40.0**	**–**	**40.0**

[1] Excluding participations and shares in affiliated companies

On the basis of the review of whether bonds complied with the parameters to be met cumulatively for allocation to Level 1 (such as number of prices) as at 31 December 2018, bonds worth EUR 230.5 million were reclassified from Level 1 to Level 2 and bonds worth EUR 1,184.4 million were reclassified from Level 2 to Level 1.

Changes in fair values determined on the basis of non-observable market data (Level 3)

	31 Dec. 2018		
EUR millions	**Financial investments**	**Loans and advances to clients**	**Total**
As at 31 Dec. 2017	**25.4**	**3.9**	**29.3**
First-time application of IFRS 9	10.6	10.1	**20.7**
As at 01 Jan. 2018	**36.0**	**14.0**	**50.0**
Effects recognised through profit or loss	5.9	–0.2	**5.7**
of which other income and expenses	–	–	**–**
of which gains or losses on fair value measurement	5.9	0.3	**6.2**
of which risk provision	–	–0.4	**–0.4**
Change in the revaluation surplus	–	–0.3	**–0.3**
Purchases	3.2	0.1	**3.3**
Sales	0.0	–0.2	**–0.2**
Settlements	–	–0.8	**–0.8**
As at 31 Dec. 2018	**45.1**	**12.7**	**57.8**
Effects recognised through profit or loss for financial instruments in the portfolio on 31 Dec.	5.9	–0.2	**5.7**
of which other income and expenses	–	–	**–**
of which gains or losses on fair value measurement	5.9	0.3	**6.2**
of which risk provision	–	–0.4	**–0.4**

EUR millions	31 Dec. 2017 Financial investments	Receivables to clients	Total
As at 1 Jan	**19.8**	**7.0**	**26.8**
Effects recognised through profit or loss	–	–1.3	**–1.3**
of which other income and expenses	–	–1.3	**–1.3**
Change in the revaluation surplus	5.6	–0.7	**4.9**
Purchases	–	0.0	**0.0**
Sales	–	–	**–**
Settlements	–	–1.1	**–1.1**
As at 31 Dec.	**25.4**	**3.9**	**29.3**
Effects recognised through profit or loss for financial instruments in the portfolio on 31 Dec.	–	–1.3	**–1.3**
of which other income and expenses	–	–1.3	**–1.3**

Significant non-observable parameters (Level 3) and their sensitivities

Loans and advances to clients (receivables acquired on the non-performing loan market and secured with real estate)

Significant non-observable parameters	Bandwidth (average)	Change in parameters	Change affecting net income	Change not recognised through profit or loss
Realisation value	EUR 0 thousand to EUR 161 thousand (EUR 15 thousand)	+5.0% –5.0%	EUR +106.9 thousand EUR –106.9 thousand	EUR 0.0 thousand EUR 0.0 thousand
Realisation period	1 month up to 23 months (16 months)	+6 months –6 months	EUR +1.6 thousand EUR –2.5 thousand	EUR 0.0 thousand EUR 0.0 thousand
Interest rate	–0.45% up to –0.27% (–0.30%)	+0.05% –0.05%	EUR –1.0 thousand EUR +1.0 thousand	EUR 0.0 thousand EUR 0.0 thousand

Receivables from clients (loans measured at fair value [category: FVPLM])

Significant non-observable parameters	Bandwidth (average)	Change in parameters	Change affecting net income	Change not recognised through profit or loss
Valuation spread	0.08% up to 0.94% (0.35%)	+10 BP –10 BP	EUR –29.4 thousand EUR +29.6 thousand	EUR 0.0 thousand EUR 0.0 thousand

Financial investments (shares in Visa Inc.)

Significant non-observable parameters	Weighted average	Change in parameters	Change affecting net income	Change not recognised through profit or loss
Subscription ratio of the Visa Inc. ordinary shares	49.8%	+10.0% –10.0%	EUR +3,077.7 thousand EUR –3,077.5 thousand	EUR 0.0 thousand EUR 0.0 thousand

Financial investments to clients (other shares in companies)

Significant non-observable parameters	Weighted average	Change in parameters	Change affecting net income	Change not recognised through profit or loss
Company-specific market risk premium	6.5%	+25 BP –25 BP	EUR –145.2 thousand EUR +156.2 thousand	EUR 0.0 thousand EUR 0.0 thousand

The measurement methods used are customary and appropriate for the asset to be measured in each case.

Financial instruments measured at amortised acquisition costs

EUR millions	Level 1		Level 2		Level 3		Total	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Assets								
Cash reserves	–	–	–	–	1,046.2	1,742.8	**1,046.2**	**1,742.8**
Loans and advances to banks	–	–	–	–	3,688.6	4,606.9	**3,688.6**	**4,606.9**
Loans and advances to clients	–	–	–	–	67,836.7	68,150.2	**67,836.7**	**68,150.2**
Total	**–**	**–**	**–**	**–**	**72,571.5**	**74,499.9**	**72,571.5**	**74,499.9**
Liabilities								
Liabilities to banks	–	–	–	–	14,585.5	15,242.3	**14,585.5**	**15,242.3**
Liabilities to clients	–	–	–	–	55,014.9	54,789.3	**55,014.9**	**54,789.3**
Securitised liabilities	–	1,264.3	4,720.9	3,563.8	0.2	0.2	**4,721.0**	**4,828.3**
Subordinated capital	–	–	–	–	–	804.7	**–**	**804.7**
Total	**–**	**1,264.3**	**4,720.9**	**3,563.8**	**69,600.6**	**70,836.5**	**74,321.4**	**75,664.6**

(55) Reclassification of financial assets

There were no reclassifications of financial assets in the reporting year.

(56) Financial instrument measurement categories

EUR millions	31 Dec. 2018
Assets	
Financial assets measured at fair value through profit or loss (FVPLM)	**188.0**
Loans and advances to clients	10.5
Assets held for trading	3.2
Financial investments	174.3
Financial assets measured at fair value directly in equity (FVOCIM)	**6,170.2**
Loans and advances to clients	2.2
Financial investments	6,168.0
Financial assets measured at amortised cost (AAC)	**70,673.8**
Cash reserves	1,046.2
Loans and advances to banks	3,687.8
Loans and advances to clients	65,919.8
Financial investments	20.0
Positive fair values from derivative financial instruments (hedge accounting)	**0.0**
Liabilities	
Financial liabilities measured at fair value through profit or loss (FVPLM)	**1.2**
Trading liabilities	1.2
Financial liabilities measured at amortised cost (AAC)	**73,583.4**
Liabilities to banks	13,813.3
Liabilities to clients	54,366.1
Securitised liabilities	4,622.3
Subordinated capital	781.7
Negative fair values from derivative financial instruments (hedge accounting)	**17.0**

EUR millions	31 Dec. 2017
Assets	
Financial assets measured at fair value through profit or loss	**3.6**
Assets held for trading	3.6
Loans, advances and securities (LaR)	**70,892.7**
Cash reserves	1,742.8
Loans and advances to banks	4,601.6
Loans and advances to clients	64,548.3
Financial investments	
Financial assets available for sale (AfS)	**6,031.8**
Loans and advances to clients	3.9
Financial investments	6,027.9
Liabilities	
Financial liabilities measured at fair value through profit or loss	**22.3**
Trading liabilities	22.3
Financial liabilities measured at amortised cost (LaC)	**73,721.9**
Liabilities to banks	14,381.1
Liabilities to clients	53,931.0
Securitised liabilities	4,725.1
Subordinated capital	684.7
Negative fair values from derivative financial instruments (hedge accounting)	**17.7**

(57) Net results of financial instruments

EUR millions	2018
Financial assets measured at fair value through profit or loss or financial liabilities (FVPLM)	**–37.6**
Net interest income	3.1
Gains or losses on fair value measurement	2.8
Gains or losses on hedging transactions	–43.5
Financial assets measured at fair value directly in equity or financial liabilities (FVOCIM)	**18.0**
Net interest income	18.1
Risk result	–0.5
Gains or losses on financial investments	0.4
Changes in the revaluation surplus	–
Financial assets measured at amortised cost (AAC)	**1,568.3**
Net interest income	1,672.3
Risk result	–104.0
Gains or losses on financial investments	–
Financial liabilities measured at amortised cost (LaC)	**–516.4**
Net interest income	–516.4

The following table shows the net results from financial instruments by category in accordance with IAS 39 for the 2017 financial year:

EUR millions	2017
Financial assets measured at fair value through profit or loss or financial liabilities	**–5.6**
Fair value option (FVO)	–
Net interest income	–
Gains or losses on fair value measurement	–
Financial assets held for trading or financial liabilities held for trading (HfT)	–5.6
Net interest income	–95.3
Gains or losses on fair value measurement	89.7
Financial assets available for sale (AfS)	**20.9**
Gains or losses on financial investments	20.9
Loans, advances and securities (LaR)	**–120.1**
Risk provisions	–120.1
Gains or losses on financial investments	0.0
Financial liabilities measured at amortised acquisition costs (LaC)	**–**

The previous year's results of EUR 133.5 million from the fair value measurement of AfS financial instruments were recognised directly in equity in the revaluation reserve.

(58) Hedging relationships (hedge accounting)

Underlying and hedging transactions

Information on the hedging relationships of the DKB Group is provided below. This includes information on portfolio hedges in the broader sense, hedged items and hedging instruments.

In the portfolio hedge in the broader sense, client loans are designated at their repayment cash flows of EUR 8,485.2 million. The hedged items are reported under loans and advances to clients.

The hedge adjustment of interest-rate-hedged loans and advances in the fair value hedge portfolio amounted to EUR 407.1 million (previous year: EUR 455.4 million). Of this amount, EUR 406.1 million relates to hedging relationships still in existence at the balance sheet date and EUR 1.0 million to hedging relationships already terminated. The hedge adjustment is reported under the balance sheet item "Portfolio hedge adjustment attributable to assets".

Hedge adjustments are offset on the liabilities side by negative fair values from derivative financial instruments (hedge accounting) and on the assets side by positive fair values from derivative financial instruments (hedge accounting):

EUR millions	31 Dec. 2018	31 Dec. 2017
Positive fair values from fair value hedges (portfolio hedges)	0.0	–
Negative fair values from fair value hedges (portfolio hedges)	17.0	17.7
Total	**17.0**	**17.7**

	Nominal value		Positive fair value		Negative fair value	
EUR millions	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
With agreed maturities						
Up to 3 months	–	500.0	–	–	–	0.0
More than 3 months up to 1 year	10.0	400.0	–	–	0.0	0.0
More than 1 year up to 5 years	3,505.0	3,650.0	–	–	9.2	14.2
More than 5 years	5,280.0	3,575.0	0.0	–	7.7	3.5
Total	**8,795**	**8,125.0**	**0.0**	**–**	**17.0**	**17.7**

Gains or losses on hedging transactions

EUR millions	31 Dec. 2018	31 Dec. 2017
Measurement gains/losses from fair value hedges (portfolio hedges)		
Underlying transactions	107.8	–51.7
Hedging instruments	–119.6	61.0
Ineffectiveness of the hedge (hedge ineffectiveness)	**–11.8**	**9.3**
Pull-to-par effect of hedging instruments	124.5	191.2
Measurement of fair value adjustments	–0.1	–0.3
Result from the amortisation of the portfolio hedge adjustment	–156.1	–324.4
Total	**–43.5**	**–124.2**

(59) Derivative transactions

The following tables present the as yet unsettled interest-rate-related and foreign-currency-related derivatives and the other forward transactions. The derivative transactions predominantly comprise interest rate swaps, which are used to manage the interest rate risk.

	Nominal value		Positive fair value		Negative fair value	
EUR millions	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**	**31 Dec. 2017**
Interest rate risks	**8,970.0**	**8,590.0**	**5.1**	**13.3**	**512.9**	**570.1**
Interest rate swaps	8,950.0	8,570.0	5.1	13.3	512.4	569.4
Options on interest rate swaps	20.0	20.0	–	–	0.5	0.7
Currency risks	**23.6**	**22.8**	**–**	**0.1**	**0.2**	**0.1**
Forward exchange transactions	23.6	22.8	–	0.1	0.2	0.1
Total	**8,993.6**	**8,612.8**	**5.1**	**13.4**	**513.0**	**570.2**

In accordance with the European Market Infrastructure Regulation (EMIR), derivatives subject to clearing requirements with negative market values of EUR 494.9 million (previous year: EUR 530.2 million) and positive market values of EUR 1.9 million (previous year: EUR 9.9 million) were offset against cash collateral deposited or received.

The derivatives are attributable in their entirety to banks in the OECD.

Derivatives are broken down by maturity as follows:

	Nominal value			
EUR millions	**Interest rate risks**		**Currency risks**	
Residual maturities	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**	**31 Dec. 2017**
Up to 3 months	10.0	920.0	6.2	6.1
More than 3 months up to 1 year	135.0	400.0	17.4	16.7
More than 1 year up to 5 years	3,505.0	3,650.0	–	–
More than 5 years	5,320.0	3,620.0	–	–
Total	**8,970.0**	**8,590.0**	**23.6**	**22.8**

(60) Offsetting of financial assets and liabilities

The DKB Group concludes framework agreements with its business partners as part of its activities in specific types of business. Netting arrangements for mutual claims and liabilities can be part of these framework agreements. Examples of such framework agreements include the German framework agreement for futures contracts and the German framework agreement for securities repurchase transactions. The clearing conditions of Eurex Clearing AG, the LCH, are also agreements with netting arrangements.

Furthermore, there is a netting arrangement with BayernLB, which, under certain conditions, provides for the offsetting of all balance sheet receivables and liabilities, including the market values from derivative transactions.

The following table shows the reconciliation of gross amounts before netting to net amounts after netting and the amounts for existing netting rights that do not meet the balance sheet netting criteria separately for all financial assets and liabilities recognised that are subject to an enforceable bilateral netting agreement. These agreements provide for an offsetting right, if predefined conditions occur (for example, the contract is ended due to insolvency).

In this case, the amounts offset in accordance with IAS 32.42 are reported in the column "Offsetting amount". Amounts in relation to financial instruments which are the subject of a netting arrangement but are not offset in the accounts due to criteria of IAS 32.42 not being complied with are provided in the column "Amounts that are subject to other netting arrangements", under "Liabilities/assets that can be netted". Under "Collateral", the fair value of financial collateral received or pledged is shown.

Offset financial assets and financial assets with underlying netting or similar arrangements

	Book value before offsetting		Offset amount		Recognised net book value after offsetting	
EUR millions	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Offsetting of current accounts in accordance with Section 10 RechKredV	**70.0**	**81.5**	**67.2**	**78.5**	**2.8**	**3.0**
Loans and advances to clients						
Derivative transactions	**5.1**	**13.4**	**1.9**	**9.9**	**3.2**	**3.5**
Assets held for trading/positive market values from derivative financial instruments (hedge accounting)	5.1	13.4	1.9	9.9	3.2	3.5
Other financial instruments	**861.9**	**1,071.4**	**–**	**–**	**861.9**	**1,071.4**
Loans and advances to banks	861.9	1,071.4	–	–	861.9	1,071.4

Total	**937.0**	**1,166.3**	**69.1**	**88.4**	**867.9**	**1,077.9**

			Amounts that are subject to other netting arrangements				Net amount after balancing as well as after consideration of other netting arrangements and collateral	
	Recognised net book value after offsetting		Liabilities that can be netted		Collateral			
EUR millions	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Offsetting of current accounts in accordance with Section 10 RechKredV	**2.8**	**3.0**	**–**	**–**	**–**	**–**	**2.8**	**3.0**
Loans and advances to clients								
Derivative transactions	**3.2**	**3.5**	**3.2**	**3.0**	**–**	**–**	**0.0**	**0.5**
Assets held for trading/positive market values from derivative financial instruments (hedge accounting)	3.2	3.5	3.2	3.0	–	–	0.0	0.5
Other financial instruments	**861.9**	**1,071.4**	**383.5**	**492.5**	**–**	**–**	**478.4**	**578.9**
Loans and advances to banks	861.9	1,071.4	383.5	492.5	–	–	478.4	578.9
Total	**867.9**	**1,077.9**	**386.7**	**495.5**	**–**	**–**	**481.2**	**582.4**

Offset financial liabilities and financial liabilities with underlying netting or similar arrangements

	Book value before offsetting		Offset amount		Recognised net book value after offsetting	
EUR millions	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Offsetting of current accounts in accordance with Section 10 RechKredV	**118.0**	**124.2**	**67.2**	**78.5**	**50.8**	**45.7**
Liabilities to clients						
Derivative transactions	**513.0**	**570.2**	**494.9**	**530.2**	**18.1**	**40.0**
Liabilities held for trading/negative market values from derivative financial instruments (hedge accounting)	513.0	570.2	494.9	530.2	18.1	40.0
Other financial instruments	**382.4**	**492.5**	**–**	**–**	**382.4**	**492.5**
Liabilities to banks	382.4	492.5	–	–	382.4	492.5
Total	**1,013.4**	**1,186.9**	**562.1**	**608.7**	**451.3**	**578.2**

EUR millions	Recognised net book value after offsetting		Amounts that are subject to other netting arrangements: Assets that can be netted		Collateral		Net amount after balancing as well as after consideration of other netting arrangements and collateral	
	2018	2017	2018	2017	2018	2017	2018	2017
Offsetting of current accounts in accordance with Section 10 RechKredV	**50.8**	**45.7**	**–**	**–**	**–**	**–**	**50.8**	**45.7**
Liabilities to clients								
Derivative transactions	**18.1**	**40.0**	**4.4**	**3.0**	**–**	**–**	**13.7**	**37.0**
Assets held for trading/negative market values from derivative financial instruments (hedge accounting)	18.1	40.0	4.4	3.0	–	–	13.7	37.0
Other financial instruments	**382.4**	**492.5**	**382.4**	**492.5**	**–**	**–**	**0.0**	**0.0**
Liabilities to banks	382.4	492.5	382.4	492.5	–	–	0.0	0.0
Total	**451.3**	**578.2**	**386.8**	**495.5**	**–**	**–**	**64.5**	**82.7**

(61) Financial assets transferred to third parties as collateral as well as other transferred financial assets without derecognition

The collateral for liabilities or contingent liabilities was provided within the framework of open market transactions with the European System of Central Banks, through refinancing loans from investment and development banks, through Pfandbrief issues and through securities repurchase transactions. In principle, all the opportunities and risks associated with ownership of the transferred assets remain with the DKB Group.

The carrying amounts of the assets transferred to third parties as collateral and of the other financial assets transferred without derecognition are allocated to:

EUR millions	31 Dec. 2018	31 Dec. 2017
Financial assets pledged as collateral to third parties	**33,203.2**	**33,567.5**
Loans and advances to clients	27,882.9	28,100.7
Financial investments	5,320.3	5,466.8
Other financial assets transferred	**502.3**	**–**
Financial investments	502.3	–
Total	**33,705.5**	**33,567.5**

These transactions are performed at customary market conditions.

The transferred financial assets are counterbalanced by liabilities in the amount of EUR 9,047.4 million (previous year: EUR 9,596.0 million).

(62) Collateral received which can be re-sold or re-pledged

In the DKB Group, no assets are held as collateral which may be re-sold or re-pledged even if the party furnishing the collateral does not default.

(63) Assets and liabilities in foreign currency

EUR millions	31 Dec. 2018	31 Dec. 2017
Foreign currency assets	**242.1**	**232.1**
USD	201.3	190.0
CHF	27.0	28.6
Other currencies	13.8	13.5
Foreign currency liabilities	**172.2**	**173.3**
USD	171.4	172.6
Other currencies	0.8	0.7

(64) Subordinate assets

The subordinate assets in the amount of EUR 24.4 million (previous year: EUR 46.2 million) are included in full in the loans and advances to clients.

(65) Risks from financial instruments

The disclosures in the notes supplement the notes on the DKB Group’s risk management and the qualitative economic disclosures, which are presented in the risk report. Their aim is to help provide a more detailed insight into the structure of the risks incurred.

Default risk

The maximum default risk[1] is distributed as follows:

EUR millions	31 Dec. 2018
Cash reserves	1,046.2
Loans and advances to banks	3,687.8
Loans and advances to clients	65,511.8
Financial investments	6,297.2
Derivatives	3.2
Loan commitments and financial guarantees	19,617.1
Total	**96,163.3**

[1] For balance sheet assets the gross book value is given, for off-balance-sheet items the exposure.

The following table shows the distribution of the maximum credit risk[1] as at 31 December 2017:

EUR millions	2017
Cash reserves	1,742.8
Loans and advances to banks	4,601.6
Loans and advances to clients	64,195.3
Financial investments	5,832.2
Derivatives	3.6
Contingent liabilities	749.2
Irrevocable commitments	3,250.6
Total	**80,375.3**

[1] For balance sheet assets the gross book value is given, for off-balance-sheet items the exposure, in each case after deduction of valuation adjustments.

Collateral is held in the DKB Group to reduce default risks. The main principles governing the individual types of collateral are set out in a guideline on collateral policy in the lending business.

The main collateral in the DKB Group consists of mortgages – primarily on domestic residential real estate. In addition, declarations of obligations under the law of obligations are also used as collateral, primarily including guarantees and assignments, cessions and liens. The extent to which collateral is required for loans granted depends on the economic circumstances of the debtor and their commercial and entrepreneurial skills. The duration of the loan, the structure of the transaction, the general economic situation and the sector situation also play a role. Collateral is not valued under going-concern aspects, but always on the basis of the liquidation value, which corresponds to the expected proceeds of collateral within the framework of an orderly realisation. The liquidation value is determined taking into account the fair value of the collateral and an expected recovery rate specific to each type of collateral.

There were no significant changes in the quality of the collateral held by the DKB Group as a result of a deterioration or changes in the collateral policy in the year under review.

Level 3 financial instruments and POCI financial instruments are covered by valuation allowances and eligible collateral as follows as of 31 December 2018:

EUR millions	Maximum default risk	Valuation adjustments	Eligible collateral
Loans and advances to clients	829.1	266.8	131.7
Loan commitments and financial guarantees	54.2	42.3	16.3
Total	**883.4**	**309.1**	**148.1**

The following table shows the maximum credit risk and the corresponding eligible collateral as of 31 December 2017:

EUR millions	Maximum credit risk	Eligible collateral
Loans and advances to clients	417.0	100.9
Contingent liabilities	0.1	–
Total	**417.1**	**100.9**

At the balance sheet date, the DKB Group held receivables of EUR 25.8 billion for which no value adjustment was recognised due to collateral.

For financial instruments that were written down in the reporting year but were still subject to a levy of execution, the amount outstanding under contract law amounted to EUR 7.5 million at the balance sheet date.

The distribution of the default risk in default rating grades 16 to 18 between Level 3 financial instruments and POCI financial instruments is shown as follows:

EUR millions	31 Dec. 2018
Rating 16	**14.0**
Level 3	13.4
POCI	0.6
Rating 17	**532.5**
Level 3	464.2
POCI	68.3
Rating 18	**293.1**
Level 3	281.6
POCI	11.5
Total	**839.6**

The following table shows the maximum credit risk in the default ratings 16 to 18 as at 31 December 2017:

EUR millions	31 Dec. 2017
Default classes (Rating 16 – 18)	**144.9**
Loans and advances to clients	128.4
Contingent liabilities	7.1
Irrevocable commitments	9.4
Total	**144.9**

Forborne exposure

Forbearance measures are generally defined as concessions to a debtor against the background of financial difficulties. The aim of such concessions is to put the borrower in a position where they can meet their obligations under the loan agreement.

Concessions can be made either through modifying existing conditions to benefit the debtor or by granting partial or complete refinancing measures. Among others, modifications to the term, interest rate and repayment schedule count as forbearance measures, as do debt waivers or capitalisation of arrears.

The forborne exposure has developed as follows:

EUR millions	31 Dec. 2018
Loans and advances to clients	763.4
Contingent liabilities	14.0
Commitments	47.5
Total	**825.0**

The following table shows the forborne exposure as of 31 December 2017:

EUR millions	31 Dec. 2017
Loans and advances to clients	827.7
Contingent liabilities	12.5
Irrevocable commitments	15.0
Total	**855.2**

Market price risk

The DKB Group divides market price risks for the bank as a whole (banking book and custody account A) into the risk factors: interest, equities, credit spread, foreign currency and volatility. The risk capital requirement for the bank as a whole developed as follows:

	12-month comparison 2018			12-month comparison 2017		
EUR millions	**31 Dec. 2018**	**Maximum**	**Minimum**	**31 Dec. 2017**	**Maximum**	**Minimum**
Interest	297.4	394.1	163.1	297.9	330.2	98.1
Equities	47.7	52.3	34.2	34.5	87.2	33.9
Credit spread	22.9	25.2	11.9	17.3	23.3	14.7
Foreign currency	7.1	7.6	6.1	6.7	7.4	5.8
Volatility	0.0	0.0	0.0	0.0	0.0	0.0
Correlated total risk	**318.3**	**428.6**	**180.6**	**319.5**	**350.9**	**102.8**

The securities portfolio has the following structure:

Market value EUR millions	Banks		Non-banks		Public-sector issuers		Total	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Bonds	2,124.4	1,768.4	332.6	321.4	3,711.1	3,742.4	**6,168.0**	**5,832.2**
Funds	–	–	129.1	141.5	–	–	**129.1**	**141.5**
Equities	–	–	–	–	–	–	**–**	**–**
Total	**2,124.4**	**1,768.4**	**461.7**	**462.9**	**3,711.1**	**3,742.4**	**6,297.2**	**5,973.7**

The regional breakdown of the securities portfolio by market value changed as follows:

	31 Dec. 2018		31 Dec. 2017	
	EUR millions	%	EUR millions	%
Germany	4,333.6	68.8	4,145.3	69.4
Europe/EU	1,708.6	27.1	1,543.7	25.9
Europe/Non-EU	175.8	2.8	162.8	2.7
USA	–	–	25.4	0.4
Other	79.3	1.3	96.5	1.6
Total	**6,297.2**	**100.0**	**5,973.7**	**100.0**

Liquidity risk

The liquidity risk from liabilities and off-balance-sheet items of the DKB Group increased by EUR 0.5 billion in 2018. The change resulted in particular from the increase in liabilities to clients by EUR 0.4 billion and irrevocable commitments by EUR 0.6 billion, as well as the decrease in liabilities to banks by EUR 0.6 billion.

The breakdown of liabilities and off-balance-sheet items of the DKB Group by contractual maturity is as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
On demand	45,905.8	**44,196.9**
Liabilities to banks	201.4	251.6
Liabilities to clients	45,704.4	43,945.3
Up to 3 months	**3,843.2**	**5,215.1**
Liabilities to banks	912.3	377.0
Liabilities to clients	2,633.8	4,276.0
Securitised liabilities	282.5	526.4
Derivatives	0.6	19.6
Subordinated capital	14.0	16.1
More than 3 months up to 1 year	**1,784.4**	**1,501.4**
Liabilities to banks	768.1	1,009.3
Liabilities to clients	990.2	396.5
Securitised liabilities	20.0	92.5
Derivatives	0.1	0.1
Subordinated capital	6.0	3.0
From 1 to 5 years	**8,467.7**	**8,437.7**
Liabilities to banks	4,016.9	4,402.9
Liabilities to clients	2,575.0	2,417.7
Securitised liabilities	1,733.7	1,464.2
Derivatives	9.2	14.1
Subordinated capital	132.9	138.8
More than 5 years	**13,471.8**	**14,334.0**
Liabilities to banks	7,914.7	8,340.3
Liabilities to clients	2,462.6	2,895.6
Securitised liabilities	2,586.2	2,642.0
Derivatives	8.3	6.1
Subordinated capital	500.0	450.0
Indefinite maturity	**5,050.0**	**4,382.0**
Subordinated capital	128.7	76.7
Provisions	180.4	164.3
Other liabilities	265.2	141.1
Contingent liabilities	637.2	749.3
Irrevocable commitments	3,838.5	3,250.6
Total	**78,522.9**	**78,067.1**

Other disclosures

(66) Leasing transactions

Finance leasing

As at 31 December 2018, the DKB Group had no finance leases.

Operating leasing

The DKB Group is a lessee in the context of operating lease arrangements. The obligations arising from operating lease arrangements existing in the DKB Group refer in particular to leasing agreements for office buildings and vehicles.

The future minimum lease payments due to operating lease arrangements break down as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
Residual maturities		
Up to 1 year	15.6	15.6
From 1 to 5 years	55.2	59.4
More than 5 years	85.1	20.0
Total	**155.9**	**95.0**

In the financial year, minimum lease payments in the amount of EUR 16.7 million (previous year: EUR 14.5 million) were recognised as an expense.

(67) Fiduciary transactions

Fiduciary transactions break down as follows:

EUR millions	31 Dec. 2018	31 Dec. 2017
Trust assets	**10.8**	**10.8**
Loans and advances to clients	10.7	10.8
Trust liabilities	**10.8**	**10.8**
Liabilities to banks	10.7	10.8

(68) Other financial obligations

In the DKB Group, there are obligations arising from maintenance contracts, which relate particularly to the areas of IT operations and facility management.

In addition, other financial obligations in the DKB Group result from the joint liability for loans of EUR 1.2 million (previous year: EUR 5.6 million), of which EUR 1.2 million result from non-consolidated companies (previous year: EUR 5.6 million).

DKB Finance GmbH is a limited partner in TEGES Grundstücksvermietungsgesellschaft mbH & Co. Objekt Berlin KG. The capital contribution is outstanding in the amount of EUR 2.2 million (previous year: EUR 2.2 million) and must be paid in cash at the request of TEGES GmbH. The outstanding capital contribution was not demanded in 2018.

There are also other financial obligations in the form of secured payment claims from the collection of contributions for the bank levy of EUR 15.8 million (previous year: EUR 11.9 million) and from the collection of contributions to the deposit guarantee fund of the Association of German Public-Law Banks (VÖB) of EUR 12.9 million (previous year: EUR 7.4 million).

(69) Other guarantees and other commitments

The DKB Group has, in accordance with Section 10 (5) of the articles of association of the deposit guarantee fund of the Association of German Public-Law Banks, Berlin, undertaken to provide additional contributions in the event of default, if required. The additional contribution obligation is limited, for every member, and for the entire duration of the fund, as well as for all cases of default, in total to the share attributable to the member of the total volume of the fund stipulated in Section 8 (1) of the articles of association, reduced by all the contributions already made by them.

(70) Shareholdings

Information pertaining to Sections 285 no. 11 and 313 HGB or in accordance with IFRS 12.2 (b), 12.4 in conjunction with IFRS 12.B4 and B6 and 12.10 (a) in conjunction with 12.12. regarding the consolidated financial statements

As at 31 December 2018, DKB has the following associated companies:

Subsidiaries included in the consolidated financial statements

Name and registered headquarters	DKB shareholding in %	Equity in EUR millions	Gains/losses in EUR millions
DKB Finance GmbH, Berlin [1, 2]	100.0	18.0	5.7
DKB Grund GmbH, Berlin [1, 2]	100.0	0.0	5.4
DKB Service GmbH, Potsdam [1, 2]	100.0	5.2	2.1
FMP Forderungsmanagement Potsdam GmbH, Potsdam [1, 2]	100.0	12.9	6.4
MVC Unternehmensbeteiligungsgesellschaft mbH, Berlin [2]	100.0	3.3	0.8
PROGES EINS GmbH, Berlin [2, 3]	100.0	0.5	–2.2

[1] Profit transfer agreement and controlling agreement
[2] Preliminary annual financial statements/IFRS package 31 Dec. 2018
[3] Profit transfer agreement and controlling agreement

Subsidiaries not included in the consolidated financial statements

Name and registered headquarters	DKB shareholding in %	Equity in EUR millions	Gains/losses in EUR millions
Bauland GmbH, Baulandbeschaffungs-, Erschließungs- und Wohnbaugesellschaft, Munich [1, 3, 4]	94.5	–10.1	0.0
DKB Code Factory GmbH, Berlin [1, 2]	100.0	0.8	0.0
DKB Immobilien Beteiligungs GmbH, Potsdam [3]	100.0	2.2	0.2
DKB Wohnen GmbH, Berlin [1, 3]	94.5	0.0	0.0
DKB Wohnungsbau- und Stadtentwicklung GmbH, Berlin [1, 3]	100.0	2.5	0.0
GbR Olympisches Dorf, Potsdam [3]	99.7	2.2	2.2
Melhoria Immobiliengesellschaft mbH, Potsdam [1, 3]	100.0	3.1	0.0
Oberhachinger Bauland GmbH Wohnbau- und Erschließungsgesellschaft, Munich [3]	100.0	–1.4	1.0
Potsdamer Immobiliengesellschaft mbH, Potsdam [3]	100.0	0.1	0.0
PROGES DREI GmbH, Berlin [3]	100.0	0.7	0.0
PROGES ENERGY GmbH, Berlin [3]	100.0	0.7	0.0
PROGES Sparingberg GmbH, Berlin [3]	100.0	0.1	0.0
PROGES VIER GmbH, Berlin [3]	100.0	0.2	0.1
PROGES ZWEI GmbH, Berlin [3]	100.0	3.0	0.0
DKB Stiftung Liebenberg gGmbH, Löwenberger Land OT Liebenberg [3, 5]	–	0.4	0.2
DKB Stiftung Schorssow UG, Schorssow [5, 6]	–	0.0	0.0
DKB Stiftung – Vermögensverwaltungsgesellschaft mbH, Fürth [3, 5]	–	0.1	0.1

[1] Profit transfer agreement and controlling agreement
[2] Preliminary annual financial statements/IFRS package 31 Dec. 2018
[3] Adopted annual financial statements 31 Dec. 2017
[4] No actual negative assets are present.
[5] Control exercised by structured company of the Group
[6] Adopted annual financial statements 31 Dec. 2016

Other joint ventures

Name and registered headquarters	DKB shareholding in %	Equity in EUR millions	Gains/losses in EUR millions
AKG ImmoPlus GmbH, Berlin [1]	50.0	0.5	0.0
German Biofuels GmbH, Pritzwalk [1]	19.9	–9.2	–1.5
TEGES Grundstücks-Vermietungsgesellschaft mbH, Berlin [1]	50.0	0.0	0.0
TEGES Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Berlin KG, Berlin [1]	47.0	–6.5	0.2

[1] Adopted annual financial statements 31 Dec. 2017

Other shareholdings

Name and registered headquarters	DKB shareholding in %	Equity in EUR millions	Gains/losses in EUR millions
Bau-Partner GmbH, Halle (Saale) [1]	49.7	0.2	–0.6
DKB Wohnimmobilien Beteiligungs GmbH & Co. KG, Potsdam [2]	5.1	36.7	1.8
FidesSecur Versicherungs- und Wirtschaftsdienst Versicherungsmakler GmbH, Munich [3]	14.0	4.8	0.0
GESO Gesellschaft für Sensorik, geotechnischen Umweltschutz und mathematische Modellierung mbH, Jena [4]	43.1	–0.4	0.0
JFA Verwaltung GmbH, Leipzig [2]	10.7	–12.8	0.3
LEG Kiefernsiedlung Grundstücksgesellschaft b. R., Berlin [5]	6.4	–3.0	0.4
LEG Wohnpark am Olympischen Dorf Grundstücksgesellschaft b. R., Berlin [5]	7.5	–5.1	0.6
LEG Wohnpark Heroldplatz Grundstücksgesellschaft b. R., Berlin [2]	7.7	–1.5	0.1
Mediport Venture Fonds Zwei GmbH, Berlin [6]	53.8	–0.9	–1.1
Neue Novel Ferm Verwaltungs GmbH, Berlin [5]	49.0	0.0	0.0
Novel Ferm Brennerei Dettmannsdorf GmbH & Co. KG, Berlin [5]	49.0	4.0	0.0
TAG Wohnungsgesellschaft Berlin-Brandenburg mbH, Hamburg [5]	5.2	11.7	3.5
Visa Inc., USA [7]	<1.0	34,006.0	10,301.0

[1] Prepared annual financial statements 31 Dec. 2010
[2] Adopted annual financial statements 31 Dec. 2016
[3] Adopted annual financial statements 30 June 2018
[4] Adopted annual financial statements 31 Dec. 2012
[5] Adopted annual financial statements 31 Dec. 2017
[6] Prepared annual financial statements 31 Dec. 2009
[7] Adopted annual financial statements 30 Sep. 2018 (in USD)

Associated companies

Name and registered headquarters	DKB shareholding in %	Equity in EUR millions	Gains/losses in EUR millions
DKB BayernImmo Beteiligungs GmbH & Co. KG, Munich [1]	50.0	3.1	–0.1

[1] Adopted annual financial statements 31 Dec. 2017

Structured companies not included in the consolidated financial statements

Name and registered headquarters	DKB shareholding in %	Equity/fund assets in EUR millions	Gains/losses in EUR millions
DKB Asien Fonds TNL, Luxembourg [1, 2]	86.0	19.6	–0.6
DKB Europa Fonds TNL, Luxembourg [1, 2]	87.3	36.6	–1.6
DKB Pharma Fonds TNL, Luxembourg [1, 2]	77.7	37.8	–2.5
DKB Teletech Fonds AL, Luxembourg [1, 2]	83.2	24.3	0.4
DKB Zukunftsfonds TNL, Luxembourg [1, 2]	82.6	32.2	0.0
DKB STIFTUNG für gesellschaftliches Engagement, Löwenberger Land OT Liebenberg [3]	–	16.2	0.0

[1] Financial statements in accordance with the International Standards on Auditing accepted for Luxembourg by the Commission de Surveillance du Secteur Financier.
[2] Earnings figures as of 31 Mar. 2018, capital share and fund assets as of 31 Dec. 2018 based on market values as of 31 Dec. 2018
[3] Adopted annual financial statements 31 Dec. 2017

Remarks:
The voting share of DKB corresponds to the capital share, unless otherwise specified. Unless otherwise specified, third parties hold the remaining voting share.

The capital share of the subsidiaries included in the consolidated financial statements in the DKB Group corresponds to the previous year's value.

(71) Executive bodies of Deutsche Kreditbank AG

Board of Management

Stefan Unterlandstättner
Chair of the Board of Management

Thomas Jebsen
Member of the Board of Management

Rolf Mähliß
until 31 March 2018, Member of the Board of Management

Alexander von Dobschütz
Member of the Board of Management

Tilo Hacke
Member of the Board of Management

Jan Walther
from 1 April 2018, Member of the Board of Management

Supervisory Board

Shareholders' representatives:

Dr Edgar Zoller (from 25 January 2019, Chair of the Supervisory Board)
Deputy Chair of the Board of Management of Bayerische Landesbank (CEO)

Michael Bücker (from 25 January 2019, Member of the Supervisory Board)
Member of the Board of Management of Bayerische Landesbank

Bernd Fröhlich
Chair of the Board of Management of Sparkasse Mainfranken Würzburg

Stefan Höck
Deputy Head of the Department of State Investments and Real Estate Management, Bavarian State Ministry of Finance, Regional Development and Regional Identity

Michael Huber
Chair of the Board of Management of Sparkasse Karlsruhe

Marcus Kramer
Member of the Board of Management of Bayerische Landesbank

Walter Pache
Independent financial expert

Dr Markus Wiegelmann
Member of the Board of Management of Bayerische Landesbank
Independent financial expert

Dr Johannes-Jörg Riegler
(until 31 December 2018, Chairman of the Supervisory Board)
Former Chair of the Board of Management of Bayerische Landesbank

Honorary member:
Günther Troppmann
Former Chair of the Board of Management of Deutsche Kreditbank AG

Employee representatives:

Bianca Häsen
Deputy Chair of the Supervisory Board
Employee
Deutsche Kreditbank AG

Michaela Bergholz
DBV representative
(Deutscher Bankangestellten Verband; German association of bank employees)

Carsten Birkholz (from 14 March 2018)
Employee
Deutsche Kreditbank AG

Christine Enz
DBV representative

Jörg Feyerabend
Employee
DKB Service GmbH

Jens Hübler
Executive employee
Deutsche Kreditbank AG

Maria Miranow (from 14 March 2018)
Employee
Deutsche Kreditbank AG

Frank Radtke
Employee
Deutsche Kreditbank AG

Frank Siegfried (until 14 March 2018)
Employee
Deutsche Kreditbank AG

Gunter Wolf (until 14 March 2018)
Employee
Deutsche Kreditbank AG

(72) Related parties

The DKB Group's related parties as specified in IAS 24 comprise the following groups:

- Sole shareholder (BayernLB)

- Non-consolidated subsidiaries

- Joint ventures

- Associated companies

- Other related parties – this includes the subsidiaries, joint ventures and associates of the BayernLB Group, the Free State of Bavaria and companies controlled by the Free State of Bavaria or which the latter jointly manages or over which it has significant influence, as well as the Sparkassenverband Bayern and companies controlled by the Sparkassenverband Bayern or which the latter jointly manages.

- Members of the Board of Management and the Supervisory Board of DKB, as well as of the Board of Management and the Supervisory Board of BayernLB, and their close family members.

The DKB Group maintains a range of commercial relations with related parties. Essentially, these relationships include typical bank services, for example in the deposit, lending and money market business.

Furthermore, there are operating lease arrangements with related companies in which the DKB Group is the lessee.

Business dealings with related companies and persons are concluded within the framework of normal business activities and are subject to fair market conditions, terms and collateralisation.

The scope of transactions with related parties is shown below:

EUR millions	31 Dec. 2018	31 Dec. 2017
Loans and advances to banks	**861.9**	**1,071.4**
Parent company	861.9	1,071.4
Loans and advances to clients	**92.3**	**117.4**
Non-consolidated subsidiaries	59.0	77.5
Joint ventures	29.2	35.7
Other related companies	4.2	4.2
Risk provisions	**7.5**	**24.8**
Non-consolidated subsidiaries	0.2	1.8
Joint ventures	7.3	23.0
Assets held for trading	**3.2**	**3.6**
Parent company	3.2	3.6
Positive fair values from derivative financial instruments (hedge accounting)	**0.0**	**–**
Parent company	0.0	–
Financial investments	**30.1**	**30.3**
Other related companies	30.1	30.3
Other assets	**193.1**	**151.7**
Parent company	192.5	146.1
Non-consolidated subsidiaries	0.4	5.6
Joint ventures	0.0	0.0
Other related companies	0.1	0.0
Liabilities to banks	**613.4**	**771.6**
Parent company	382.4	492.5
Other related companies	231.0	279.1

EUR millions	31 Dec. 2018	31 Dec. 2017
Liabilities to clients	**88.1**	**96.1**
Non-consolidated subsidiaries	26.9	36.0
Associated companies	1.5	–
Joint ventures	0.7	1.3
Other related companies	59.0	58.8
Securitised liabilities	**39.9**	**48.7**
Parent company	0.7	11.5
Other related companies	39.2	37.2
Trading liabilities	**0.7**	**0.8**
Parent company	0.7	0.8
Negative fair values from derivative financial instruments (hedge accounting)	**3.7**	**2.2**
Parent company	3.7	2.2
Provisions	**1.5**	**0.0**
Non-consolidated subsidiaries	0.0	0.0
Joint ventures	1.5	–
Other related companies	0.0	0.0
Other liabilities	**9.1**	**10.8**
Parent company	3.9	0.6
Non-consolidated subsidiaries	0.9	1.0
Joint ventures	0.0	0.1
Other related companies	4.4	9.1
Subordinated capital	**661.3**	**561.2**
Parent company	661.3	561.2
Contingent liabilities	**0.8**	**0.9**
Non-consolidated subsidiaries	0.8	0.9
Other related companies	0.0	0.0
Other commitments	**4.6**	**4.7**
Non-consolidated subsidiaries	1.0	1.3
Other related companies	3.6	3.4

Other commitments only contain credit commitments.

Loans, advances and deposits

Transactions with related parties include loans, advances and deposits to members of the Board of Management and Supervisory Board of DKB AG, as well as members of the Board of Management and Supervisory Board of BayernLB. Loans were granted at standard market conditions and terms.

EUR millions	31 Dec. 2018	31 Dec. 2017
Loans and advances[1]		
Members of the Board of Management of DKB[2]	1.7	2.7
Members of the Supervisory Board of DKB[2]	0.8	0.9
Members of the Board of Management of BayernLB[2]	0.3	0.0
Members of the Supervisory Board of BayernLB[2]	0.2	0.3

[1] Multiple entries are possible.
[2] The loans and advances are completely collateralised.

EUR millions	31 Dec. 2018	31 Dec. 2017
Contributions[1]		
Members of the Board of Management of DKB	1.9	2.7
Members of the Supervisory Board of DKB	2.0	2.4
Members of the Board of Management of BayernLB	2.1	2.6
Members of the Supervisory Board of BayernLB	0.1	1.4

[1] Multiple entries are possible.

Salaries of the members of the Board of Management and the Supervisory Board of the DKB Group

EUR millions	31 Dec. 2018	31 Dec. 2017
Members of the Board of Management of DKB	**3.5**	**2.7**
Current employee benefits	2.8	2.1
Other non-current employee benefits	0.7	0.6
Benefits after the working relationship has ended	–	–
Members of the Supervisory Board of DKB	**0.5**	**0.5**
Current employee benefits	0.5	0.5
Former members of the Board of Management of DKB and their surviving dependants	**0.9**	**0.7**
Pension reserves formed for members of the Board of Management of DKB	**13.7**	**17.5**
Pension reserves formed for former members of the Board of Management of DKB and their surviving dependants	**26.0**	**20.6**

The variable remuneration of EUR 0.9 million taken into account for the members of the Board of Management for the financial year is subject to the approval of the Supervisory Board at the time the annual financial statements are prepared.

A regular salary was furthermore due to the employee representatives in the Supervisory Board within the framework of their employment contract. This is based on the collective agreement or results from an individual agreement and corresponds to a remuneration that is commensurate with the respective role or activity in the company.

Close family members of the Board of Management and of the Supervisory Board have no influence on the business decisions of the DKB Group.

(73) Non-consolidated structured companies

The DKB Group maintains business relationships with structured companies. These involve contractual and non-contractual business relationships with companies that are arranged such that these are not controlled by voting rights or similar rights; instead the voting rights only relate to administrative tasks. The actual relevant activities of the structured companies are controlled by contractual agreements.

Investment funds

The DKB Group invests in funds that are launched by capital investment companies. The purpose of the funds is essentially to participate in the development of equity markets. Investment funds are financed by the issue of share certificates, by way of credit financing or by issuing debt and equity instruments. The financing is generally collateralised by the underlying assets of the fund. The scope of the investment funds with which the DKB Group maintains business relationships is determined by their fund assets, which amounted to EUR 175.6 million as at the reporting date.

Other financing

The DKB Group provides financing funds for a structured company, which maintains a number of different assets. This structured company was established as a foundation. The purpose of the foundation is to promote the preservation of historical monuments, art and culture and to support education projects. Financing is collateralised by the assets held.

Balance sheet assets and liabilities from shares in non-consolidated structured companies

	Investment funds	Other financing	Total
EUR millions	**31 Dec. 2018**	**31 Dec. 2018**	**31 Dec. 2018**
Assets			
Loans and advances to clients	–	9.7	**9.7**
Financial investments	129.1	–	**129.1**
Total	**129.1**	**9.7**	**138.8**
Liabilities			
Liabilities to clients	–	0.5	**0.5**
Provisions	–	0.0	**0.0**
Total	**–**	**0.5**	**0.5**

The maximum default risk to which the DKB Group is exposed through its business activities with structured companies is determined for financial investments from their balance sheet book value. For receivables from the lending business, the maximum possible loss is represented by the gross book value, taking into consideration repayments and amortisation. No collateral was taken into consideration for the specified maximum possible losses.

(74) Seats held on statutory supervisory bodies of major corporations or financial institutions

As at the balance sheet reporting date, 31 December 2018, the following mandates were held by members of the Board of Management and by employees of DKB on statutory supervisory bodies of major corporations or financial institutions:

Stefan Unterlandstättner
Bayern Card-Services GmbH, Munich
VÖB Service GmbH, Bonn

Alexander von Dobschütz
AKA Ausfuhrkredit-Gesellschaft mbH, Frankfurt am Main

(75) Auditor's fee

The auditor's fee recognised in the financial year as an expense is composed as follows:

EUR millions	2018[1]	2017[1]
Audit services for the financial statements	2.8	3.5[2]
Other auditing services	0.0	0.0
Tax consultancy services	0.2	0.2
Other services	1.6	1.9
Total	**4.7**	**5.6**

[1] Excluding VAT (net)
[2] Of which EUR 0.2 million for the previous year

The auditor's fee includes, in particular, the audit of the consolidated financial statements and the annual financial statements of DKB, as well as the annual financial statements of other Group companies, including statutory contract extensions and auditing focal points agreed with the Supervisory Board. In addition, the review of the half-year financial report and project-based IT audits were integrated into the audit.

In addition, tax advisory services, which include support in the preparation of tax returns and tax advice on individual matters, were provided. Other services relate to quality assurance support services for internal DKB projects to implement legal and regulatory requirements.

(76) Employees

Average employee capacities during the financial year:

	2018	2017
Full-time staff (excluding apprentices)	**2,584**	**2,381**
Female	1,219	1,139
Male	1,366	1,242
Part-time staff (excluding apprentices)	**692**	**652**
Female	581	554
Male	111	98
Apprentices	**16**	**16**
Female	8	7
Male	8	9
Total	**3,292**	**3,049**

The working hours of the part-time staff were converted to those of full-time staff.

(77) Shareholders

DKB is a wholly owned subsidiary of BayernLB with headquarters in Munich. BayernLB is an institution established under public law. It is owned (indirectly via BayernLB Holding AG) by the Free State of Bavaria and the Association of Bavarian Savings Banks. The BayernLB notification was issued to DKB in accordance with Section 20 (4) AktG.

The DKB Group is included in the consolidated financial statements of BayernLB. The consolidated financial statements of BayernLB will be published, as will the consolidated financial statements of DKB, in the electronic Federal Gazette.

(78) Events after the balance sheet date

There were no events of particular significance for the DKB Group after 31 December 2018.

Time of release for publication

The Board of Management of Deutsche Kreditbank AG prepared the consolidated financial statements on 26 February 2019 and released them for submission to the Supervisory Board. The Supervisory Board has the task of auditing the consolidated financial statements and of declaring whether it approves the consolidated financial statements.

Berlin, 26 February 2019

Deutsche Kreditbank AG
The Board of Management

Stefan Unterlandstättner

Tilo Hacke

Thomas Jebsen

Alexander von Dobschütz

Jan Walther

Additional information

Responsibility statement by the Board of Management

We declare that, to the best of our knowledge and in accordance with the applicable accounting principles, these consolidated financial statements provide a true representation of the Group's net assets, financial position and performance, and that, in the Group management report, the business result including the gains/losses and the position of the Group are represented such as to provide a true picture of the actual situation, and that the material opportunities and risks of the expected development of the Group are described.

Berlin, 26 February 2019

Deutsche Kreditbank AG
The Board of Management

Stefan Unterlandstättner **Tilo Hacke** **Thomas Jebsen**

Alexander von Dobschütz **Jan Walther**

Independent auditor’s report

To Deutsche Kreditbank Aktiengesellschaft, Berlin

Report on the audit of the consolidated financial statements and combined management report

Audit opinions

We have audited the consolidated financial statements of Deutsche Kreditbank Aktiengesellschaft, Berlin, comprising the consolidated balance sheet as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated cash flow statement of the consolidated statement of changes in equity for the financial year from 1 January 2018 to 31 December 2018 and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we audited the combined management report of Deutsche Kreditbank Aktiengesellschaft for the financial year from 1 January 2018 to 31 December 2018. In accordance with German law, we have not examined the content of the corporate governance statement contained in the “Non-financial performance indicators” section of the combined management report.

In our opinion based on the findings of our audit

– the enclosed consolidated annual financial statements are in all material respects in compliance with IFRS as applicable in the EU and the supplementary provisions under commercial law pursuant to Section 315e (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group as at 31 December 2018 and its earnings situation for the financial year from 1 January 2018 until the end of 31 December 2018 in accordance with these requirements and
– the combined management report provides a suitable understanding of the Group’s position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German law and suitably presents the opportunities and risks of future development. Our audit opinion on the combined management report does not extend to the contents of the above-mentioned declaration on corporate governance.

In accordance with Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any objections against the correctness of the consolidated financial statements and the combined management report.

Basis for the audit opinions

We conducted our audit of the consolidated annual financial statements and the combined management report in accordance with Section 317 HGB, EU Auditor Regulation (No. 537/2014; hereinafter “EU-APrVO“) and the German generally accepted accounting standards laid down by the German Institute of Public Auditors (Institut der Wirtschaftsprüfer – IDW). Our responsibility in accordance with these regulations and principles is further described in the section “Responsibility of the auditor for the audit of the consolidated financial statements and combined management report” of our audit opinion. We are independent of the Group company in accordance with European and German commercial and professional legal regulations and have met our other German professional duties in accordance with these requirements. In addition, we declare in accordance with Article 10 (2) letter f) of EU-APrVO that we have not provided any prohibited non-audit services pursuant to Article 5 (1) of EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statements and combined management report.

Particularly significant audit issues arising from the audit of the consolidated financial statements

Particularly significant audit issues are those which, in our opinion and due discretion, were most significant to our audit of the consolidated financial statements for the financial year from 1 January 2018 to 31 December 2018. These issues have been considered in connection with our audit of the consolidated financial statements as a whole and in forming our opinion thereon; we do not express a separate opinion on these issues.

Appropriateness of the specific loan loss allowances on loans and advances to clients in the large-scale lending business

In accordance with the requirements, the bank applied the new accounting standard "IFRS 9 – Financial Instruments" for the first time at the beginning of the 2018 financial year. One of the key new features of IFRS 9 is that risk provisions are generally measured on the basis of probability-weighted scenarios and that this also applies to debt instruments with impaired creditworthiness (Level 3 risk provisions). Please refer to Note 9 "Impairments" in the notes to the consolidated financial statements for information on the accounting and measurement methods applied. With regard to the management of problematic exposures, we refer to the section "Counterparty default risks" of the combined management report.

RISK FOR THE FINANCIAL STATEMENTS

Deutsche Kreditbank AG reports loans and advances to clients in the consolidated financial statements as at 31 December 2018 in the amount of EUR 65,932 million, which corresponds to around 90% of the balance sheet total. Of this, approximately 79% is attributable to the large-scale commercial lending business, which includes clients in the strategic business areas "corporate clients" and "infrastructure", including major financing in agriculture as well as project and special financing. For credit exposures at risk of default and defaulted exposures with a gross exposure of EUR 750 thousand for this client group, the bank calculates the provision for possible loan losses using a case-by-case approach. To manage the counterparty default risk in the lending business, the bank recorded valuation allowances of EUR 421 million as at 31 December 2018, of which EUR 262 million is allocated to Level 3 risk provisioning and EUR 154 million to Level 1 and 2 risk provisioning.

As part of the provisioning for credit risks, the determination of specific valuation allowances requires forward-looking estimates of expected recoveries from interest and redemption claims, which are based on value-determining parameters and assumptions and are subject to a high degree of discretion. In addition, significant judgement is exercised in determining scenarios by number and content, deriving expected cash flows in the respective scenario and estimating probabilities of occurrence.

The discretionary decisions have a significant influence on the amount of the required valuation allowance. On the one hand, the parameters used in the calculation may not have been adequately determined; on the other hand, the assumptions made with regard to key value-determining parameters, the determination of scenarios, the development of interest and the prospects of success of clients' restructuring concepts may not have been adequately derived. It was therefore particularly important in our audit to obtain evidence that the value-determining parameters were adequately determined overall, that the assumptions made were properly derived, that the selection of the specific scenarios and the estimation of the probability of occurrence per scenario were objectively justified, and that they were carried out and documented without contradiction.

OUR APPROACH TO THE AUDIT

Using the risk-based audit approach, we based our audit opinion both on control-based audit procedures and on meaning-related audit procedures. As a result, we performed the following audit procedures with, among others, the assistance of KPMG credit risk specialists:

As a first step, we gained an understanding of the development of the loan portfolio, the associated counterparty default risks, the methods and models used and the internal control system with regard to the identification, management, monitoring and evaluation of counterparty default risks in the loan portfolio as a whole. Our audit included a review of the design and functionality of the internal control system, focusing on the assessment of the design of the internal accounting methodology for the valuation of credit impaired loans.

In order to assess the adequacy of the internal control system, we conducted surveys and inspected the relevant documents. We then satisfied ourselves of the appropriateness and effectiveness of the relevant controls, which are intended to ensure compliance with the system for determining the individually calculated Level 3 risk provision and the appropriate derivation of the value-determining assumptions and parameters. For the IT systems and processes used for this purpose, we have reviewed the appropriateness and effectiveness of the system and application management with the involvement of our IT specialists. We also assessed the structure, function and results of the validation, sensitivity and scenario analyses carried out by the company, as well as the evidence of representativeness.

Finally, on the basis of a selection of loan commitments defined under risk and materiality aspects from the population of the large-scale lending business, we were convinced that the parameters on which the valuation of the loans was based were adequately determined and that the assumptions for loan commitments of this selection were derived in an appropriate manner. In addition, we also assessed the appropriateness of the scenarios used and the probabilities of occurrence assigned to these scenarios. We have taken into account the complexity of the respective financing and the factors that are likely to determine the further course of the commitment and assessed the reliability of the selection criteria on the basis of a representative sample of individual cases. Where specific loan loss allowances had to be recognised in these cases, we have also computed them and verified their correct recognition in the accounting system.

OUR CONCLUSIONS

In the context of the selection of loan exposures for which an individually determined allowance for credit losses had to be made, we came to the conclusion that the assumptions and parameters underlying the calculation of the allowance for credit losses had been properly selected and that the estimate of the expected recoveries had been made in accordance with the accounting principles to be applied for the measurement of allowances for credit losses. In addition, we came to the conclusion that the selection of the specific scenarios, the estimation of the probability of occurrence for each scenario and the estimation of the cash flows expected in each scenario had been carried out and documented in a comprehensible, factually justified and consistent manner.

Creation of risk provisions for Level 1 and Level 2 credit exposures under IFRS 9

RISK FOR THE FINANCIAL STATEMENTS

In accordance with the requirements, Deutsche Kreditbank AG applied the new accounting standard "IFRS 9 – Financial Instruments" for the first time at the beginning of the 2018 financial year. The significant improvements from IFRS 9 include the introduction of a new risk provisioning category (Level 2 risk provisioning – expected credit loss over the (entire) term) for debt instruments measured at amortised cost or at fair value through equity on the assets side, for which a significant increase in the default risk (transfer criterion) has occurred since their addition (Level 1 – expected twelve-month credit loss), without these instruments having specific default characteristics for Level 3 risk provisioning (transfer criterion).

The transition effect on equity in the opening balance sheet as at 1 January 2018 was 67% (before tax) attributable to the introduction of the Level 2 risk provisioning category. As at 31 December 2018, Deutsche Kreditbank AG reported debt instruments with a balance sheet value of EUR 2.7 billion that are allocated to the risk provisioning category "significant increase in default risk". This corresponds to approximately 3% of the balance sheet total.

Risk provisioning for Level 2 exposures is essentially determined by the criteria for transfer to Level 2 and the calculation of the lifetime expected credit loss (LECL). In particular, the newly applicable multi-year logic for calculating the LECL has an effect on the derivation of the parameters probability of default (PD) and exposure at default (EaD), the progression of which can be estimated on the basis of model assumptions.

If the transfer criterion is not properly designed and applied, there is a risk that, despite a significant increase in credit risk, the provision for possible loan losses will only be recognised on the basis of the expected twelve-month credit loss. On the other hand, if a transfer back to Level 1 becomes necessary, there is a risk that the risk provision will be too high.

The principles-based approach of the standard describes how to determine a significant increase in the default risk and how to estimate the LECL. It is the responsibility of any entity that prepares its financial statements in accordance with the IFRSs to develop, for the first time, quantitative and qualitative criteria in accordance with the principles of the new standard that will be used to assess whether the credit risk has increased significantly since the addition of a debt instrument. In addition, LECL models must be used to estimate the credit exposures transferred to Level 2. Therefore, it was of particular importance for our audit that both the transfer criteria and the parameter estimation for the LECL were properly designed for the purpose of use in accounting under IFRS 9 and applied in accordance with the design.

OUR APPROACH TO THE AUDIT

Based on our risk assessment and the assessment of the risks of error, we have based our opinion on both control-based and meaning-based audit procedures. As a result, we performed the following audit procedures, among others, with the involvement of KPMG risk model specialists:

We first obtained an overview of both the basic procedure for determining a significant increase in the default risk and the concept for deriving the parameters relevant to the LECL. The procedure developed by the bank was subsequently assessed by us for conformity with the requirements of the new accounting standard. We then assessed the suitability of the models used to determine the significant valuation parameters. The technical IT implementation of the concepts, in particular on the basis of the test procedure created by the bank for the key parameters, was tracked using a deliberate selection of test cases.

We also gained an insight into the internal control system to ensure that quantitative and qualitative information and parameters are properly determined, recorded and analysed and taken into account in the bank's assessment models. For the IT systems and processes used for this purpose, we have reviewed the appropriateness and effectiveness of the system and application management with the involvement of our IT specialists. In addition, for the controls implemented by the bank, we first assessed the structure of the controls with regard to their suitability for covering identified error risks and then assessed the effectiveness of the controls. The control objectives considered were, in particular, the completeness of risk provisioning and the correct calculation of risk provisioning after updating parameters.

Within the framework of meaning-based audit procedures, we have reconstructed the calculations performed by the bank to determine the level transfer and the LECL on the basis of a random sample of individual credit exposures. In order to ensure the correct basis for calculating risk provisions, we have also reviewed the allocation to Levels 1 and 2 on the basis of analytical audit procedures.

OUR CONCLUSIONS

The bank has applied appropriately designed criteria to identify credit exposures for which a significant increase in the default risk has occurred or has been reduced again since their inception. The models and parameters used were properly designed and applied according to the concept.

Miscellaneous information

The legal representatives are responsible for the miscellaneous information. Miscellaneous information includes:

- the corporate governance statement and

- the remaining parts of the annual report, with the exception of the audited consolidated financial statements, the combined management report and our audit opinion.

Our opinion on the consolidated financial statements and combined management report does not extend to miscellaneous information, and accordingly we do not express an audit opinion or any other form of conclusion on such information.

In connection with our audit, we have the responsibility to read the miscellaneous information and, in doing so, to assess whether the miscellaneous information

- is materially inconsistent with the consolidated financial statements, combined management report or the findings of our audit, or

- otherwise appears materially misrepresented.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the combined management report

The legal representatives are responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB and for the presentation of a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the legal representatives are responsible for the internal controls they have determined as necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether intentional or not.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, where relevant, matters relating to the continuation of the company's activities. In addition, they are responsible for accounting on the basis of the going-concern accounting principle, unless there is the intention to liquidate the Group or to discontinue operations or there is no realistic alternative.

The legal representatives are responsible for the preparation of the combined management report, which as a whole provides a suitable view of the Group's position, is consistent in all material respects with the consolidated financial statements, complies with German law and suitably presents the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the precautions and measures (and such systems) which they have deemed necessary to enable the preparation of a combined management report in accordance with the applicable German legal provisions and to provide sufficient suitable evidence for the statements in the combined management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the combined management report.

Responsibility of the auditor for the audit of the consolidated financial statements and combined management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatements, whether intended or not, and whether the combined management report as a whole provides a suitable view of the Group's position and is in accordance, in all material respects, with the consolidated financial statements and the findings of our audit, complies with the requirements of the German legal regulations and suitably presents the opportunities and risks of future development, and to issue an audit report that includes our audit opinions on the consolidated financial statements and combined management report.

Sufficient assurance is a high degree of certainty, but no guarantee, that an audit conducted in accordance with Section 317 HGB and EU-APrVO in accordance with the generally accepted standards for the audit of financial statements laid down by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements can result from violations or inaccuracies and are regarded as material if it could reasonably be expected that they would individually or collectively influence the economic decisions of users made on the basis of these consolidated financial statements and the combined management report.

During the audit, we exercise due discretion and maintain a critical attitude. In addition:

– we identify and assess the risks of material misstatements, whether intentional or not, in the consolidated financial statements and combined management report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to form the basis for our audit opinion. The risk that material misrepresentations are not detected is higher in the case of violations than in the case of inaccuracies, since violations may involve fraudulent interaction, forgery, intentional incompleteness, misleading representations or the repeal of internal controls.

– we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of the precautions and measures relevant to the audit of the combined management report for planning audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

– we assess the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values and related disclosures presented by the legal representatives.
– we draw conclusions about the appropriateness of the going-concern accounting principle applied by the legal representatives and, based on the evidence obtained, whether there is a material uncertainty in connection with events or circumstances that could raise significant doubts about the Group's ability to continue its activities as a going concern. If we conclude that there is material uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and the combined management report in our audit report or, if this information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of evidence obtained by the date of our audit opinion. However, future events or circumstances may prevent the Group from continuing its business activities.

– we assess the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying business transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315e (1) HGB.

– we obtain sufficient, suitable audit evidence for the accounting information of the companies or business activities within the Group to express an opinion on the consolidated financial statements and the combined management report. We are responsible for the management, supervision and execution of the audit of the consolidated financial statements. We bear the sole responsibility for our audit opinions.

– we assess the consistency of the combined management report with the consolidated financial statements, its compliance with the law and the picture it conveys of the Group's position.

- we perform audit procedures on the forward-looking statements presented by the legal representatives in the combined management report. On the basis of sufficient suitable audit evidence, we follow up on the significant assumptions underlying the future-oriented statements made by the legal representatives and assess the appropriate derivation of the future-oriented statements from these assumptions. We do not express an independent opinion on these forward-looking statements or on the underlying assumptions. There is a significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those responsible for monitoring, inter alia, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system which we identify during our audit.

We make a statement to those responsible for the monitoring that we have complied with the relevant independence requirements and discuss with them all the relationships and other matters that can reasonably be expected to affect our independence and the safeguards taken to that end.

From the matters that we have discussed with those responsible for supervision, we determine those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and which are therefore particularly important audit matters. We describe these matters in the auditor's report, unless laws or other legal provisions exclude public disclosure of the facts.

Miscellaneous legal and other legal requirements

Other disclosures in accordance with Article 10 of EU-APrVO

We were elected as Group auditors by the Annual General Meeting on 14 March 2018. We were appointed by the Supervisory Board on 8 May 2018. In compliance with the transitional provision of Article 41 (1) of EU-APrVO, we have been the Group auditor of Deutsche Kreditbank Aktiengesellschaft without interruption since the 1990 financial year.

We declare that the audit opinions contained in this audit report are consistent with the additional report to the Audit Committee under Article 11 of EU-APrVO (Audit Report).

Responsible auditor

The auditor responsible for the audit is Mr Ulrich Bergmann.

Berlin, 26 February 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft [audit firm]

Signed Bergmann Auditor	Signed Thiel Auditor

Multi-year overview

Earnings indicators

EUR millions	2018	2017	2016	2015	2014
Net interest income	976.7	935.2	795.1	790.4	670.2
Risk result[1]	111.8	127.3	128.7	143.8	134.4
Net commission income	–33.7	–39.2	6.9	–1.3	–4.2
Administrative expenses	474.7	446.3	417.0	376.8	368.6
Profit/loss before taxes	301.2	264.7	331.2	236.0	150.5
Cost/income ratio (CIR) in %	51.5	50.8	45.8	48.0	54.9
Return on equity (RoE) in %	10.2	9.6	12.4	9.6	6.1

Balance sheet figures

EUR millions	2018	2017	2016	2015	2014
Total assets	77,387.6	77,322.9	76,522.3	73,428.8	71,587.2
Equity	3,340.4	3,255.5	3,019.1	2,945.7	2,764.3
CET1 ratio in %	9.1	8.6	8.9	8.2	8.7
Client receivables	65,932.5	64,552.2	63,228.3	61,582.1	59,609.5
Client deposits	54,366.1	53,931.0	53,438.0	48,558.2	47,319.0

Customer figures

	2018	2017	2016	2015	2014
Number of clients	4,073,875	3,761,498	3,518,055	3,250,968	3,071,434
Number of retail current accounts (DKB Cash)	2,980,293	2,746,526	2,501,689	2,214,771	2,003,377

Employee figures

	2018	2017	2016	2015	2014
FTE | headcount as at 31 Dec.	3,431 | 3,731	3,084 | 3,379	3,032 | 3,316	2,937 | 3,220	2,832 | 3,104
Average age in years	42.9	43.1	42.8	42.5	42.1
Average length of service in years	8.4	8.5	8.2	7.9	7.4
Gender breakdown m | f in %	43.8 | 56.2	43.3 | 56.7	41.7 | 58.3	40.5 | 59.5	40.9 | 59.1
Gender breakdown by management position m | f in %	62.4 | 37.6	60.5 | 39.5	61.1 | 38.9	62.5 | 37.5	65.1 | 34.9
Workforce availability in %	95.1	95.1	95.0	95.3	96.2
Training days/employee	3.8	3.4	3.4	2.4	2.4

[1] Risk provision until 2017

Contact and legal notice

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Additional information
Further information on our company can be found at www.dkb.de.

Notice
This Annual Report published by Deutsche Kreditbank AG contains forward-looking statements. These statements reflect the current views of the company's management and are thus based on estimates and expectations. They are therefore not to be regarded as guarantees that these expectations will also be met. The information provided in the Annual Report was carefully selected and originates from credible sources, although we did not check the veracity of the information.

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Inclusion and diversity are of great importance to us. The statements in the document therefore apply to all people, irrespective of their identity. For ease of reading, we use gender-neutral language in the text.

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